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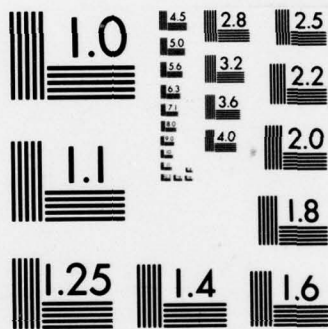
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THE UNITED STATES NAVAL WAR COLLEGE

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MULTIPLE FUNCTION CONTRACTING FOR
BASE OPERATIONS AND SUPPORT

by

CAPT Roy D. Gaulden; CAPT Robert B. Wilson;
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Civil Engineer Corps, U.S. Navy

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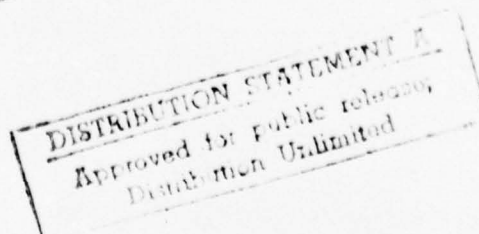
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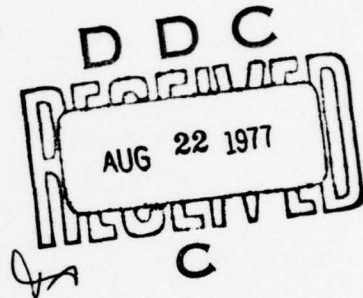
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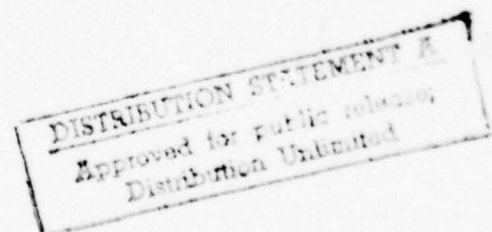


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| 20. ABSTRACT (Continue on reverse side if necessary and identify by block number) The study focuses on the impact of the Office of Management and Budget Circular A-76 and the new concept of operating the Naval shore establishment through private sector contracts. The restrictive and binding implementation procedures for contracting Commercial or Industrial Goods and Services is addressed; the Army, Navy and Air Force experiences in converting to multiple function contracting is reviewed; the various contract methodology and pitfalls are analyzed; and Post Award Considerations, both quantitative and nonquantita- tive are included. The findings of the study forecast the likely contracting. | | |

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environment of the future and explore the factors which should be considered
in conversion to contract operations.

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EXECUTIVE SUMMARY

Introduction. The traditional Navy approach of operating its shore establishment with civil servants and sailors is being challenged increasingly by a new concept calling for the performance of those operations by contract. Conversion to contract is difficult and is exacerbated by myriad problems and pitfalls. An erroneous decision in the process can result in an interruption of essential services and serious degradation of a decision-maker's professional reputation. National policy, coupled with increasing resource constraints, is forcing the Navy into a greater use of contracting and, once such conversions are made, it will be difficult to return to past procedures.

Commercial or Industrial Goods and Services. The Ford Administration stressed Government reliance on the private sector by utilizing restrictive and binding implementation procedures. The 1976 revision to OMB A-76 stated that "...industrial activities...are not inherently governmental functions... and their performance...must be justified as being in the national interest." It further specified the few allowable exceptions to contracting, and explicitly defined cost comparison procedures. Full costing for external as well as internal costs was directed, partly by increasing the salary markup from 8.4% to 28.7%. DOD further reduced service latitude by requiring that cost comparison be made with a firm bid/offer technique, resulting in the

Government estimate actually competing with industry bids to determine the lowest cost for performing the work. GAO further emphasized program intent by criticizing the services for delays in implementation.

Problems in policy execution include difficulties in effecting major conceptual changes within the Government bureaucracy, as well as a dichotomy in philosophies between the Executive Branch in announcing policy and the constituent generated reactions of Congress in questioning the policy. Rigid implementation of the concept results in budget base and civilian and military manpower difficulties. Public demands for reducing the Federal payroll and ever present resource constraints, dictate that the Navy manager fully understands all the implications of multiple function contracting.

Criteria for Contract Conversions. A review of the Army, Navy, and Air Force experiences in converting to multiple function contracting reveals little consistency in criteria for making conversion decisions. This study advocates a flexible and logical procedure to be followed. Initially, a decision as to the applicability of individual functions for contracting must be made, with cost probably the dominant factor. Action for grouping functions into a single umbrella contract should then be taken, but not until an objective review of the applicable advantages and disadvantages is made. Existing DOD procedures,

however, do not allow the military manager the required latitude to make optimum choices, and changes to directives are needed. After the decision to convert to contract is made, a detailed appraisal of the non-quantitative factors must be made if potential pitfalls leading to failure are to be avoided. The possible effect of a strike, for instance, may well be a significant consideration in the decision process in analyzing an operationally oriented activity.

Contract Methodology. Service contracts are unique in that the required end product is often difficult to define. Multiple function service contracting places emphasis on contractor management expertise to ensure greatest benefit to the Government. The composition of the statement of work is a key element in the process, with consistency and clarity essential. The desired output must be stated, but not be restrictive in specifying procedure. The type of contract utilized is primarily a function of the degree of risk involved and the incentive technique desired. Both fixed price and cost reimbursable contracts can be utilized with varied incentive or risk sharing methods applied as appropriate. Choice is dependent upon the amount of uncertainty and a decision concerning how best to share these risks. Evaluation techniques are many, and must be considered from the start in specifying the information requested from prospective proposers. A well planned and coordinated pre-proposal conference is essential. Proposal evaluation procedures

(can be either quite complex or relatively simple. In either case, adequate care and expertise must be devoted to them. Price probably should not be dominant in the evaluation. Accordingly, greater weight must be directed to the proposer's experience, technical abilities, and management competence.

(Post-Award Considerations. The dollar value and the impact on operations of a conversion to contract requires that substantial Government effort and expertise be devoted to the administration of the contract. Planning for this administration is required during the conversion feasibility study phase. The changeover period from in-house to contract operation, as well as that of contractor to contractor, is particularly sensitive and could be cause for trauma. Again, early consideration must be given to changeover procedures and plans must be developed for accomplishment. Surveillance, a means of validating contractor performance, can be difficult since service contracts are labor intensive and results are not always easily definable. If the Government and the contractor can engender a spirit of mutual trust and confidence, future difficulties will be minimized. Procurement experts will normally handle the administrative aspects of the contract; but, in assessing contractor performance, it is essential that technical specialists, trained in administrative procedures, evaluate the end product in their areas of expertise. The numbers of such personnel required will vary with the complexity of the contracted functions and the tempo of base operations. Care must be taken to neither directly nor

indirectly supervise the contractor's employees. It is essential that personnel engaged in contract administration fully understand that satisfactory output is the desired result, and that the contractor may select his own methodology as long as the end product is acceptable.

Conclusions. Based on the findings of the study, the following conclusions are presented:

1. That increased emphasis on contracting for Government support services will continue,
2. That conceptual differences between the Executive and Legislative Branch will increase the difficulties of implementing and managing the program,
3. That due to differences between bases with respect to mission and tempo of operations, no definitive guide can be developed for use in all conversion situations,
4. That, although cost effectiveness is an important criterion to be considered in a decision to convert to contract operations, non-quantitative factors may well control the final decision,
5. That the major advantage of an umbrella contract lies in the Government's ability to buy management expertise,
6. That an incentive type contract, normally fixed price, utilizing a performance oriented statement of work, is most appropriate for use in multiple function service contract cases, and
7. That contract surveillance should be consistent with the philosophy outlined in the statement of work.

PREFACE

As a result of discussions with Rear Admiral Neal W. Clements, CEC, USN, the then Deputy Commander for Planning, Headquarters, Naval Facilities Engineering Command in early 1977, it became apparent that the implementation of Office of Management and Budget Circular A-76 had become a significant issue within the Department of Defense.

With his encouragement, the authors undertook a study of this issue under the auspices of the Center for Advanced Research, Naval War College, Newport, Rhode Island. Visits to a number of Army, Navy and Air Force field activities, as well as headquarters components of those services, were augmented by analyses of various documents available which were pertinent to the subject.

The conclusions drawn in the study are thus based on limited research and are not presented as the total experiences of any single service, or those of other Government agencies. Time restrictions prevented a more exhaustive study although it is considered that analyses of other national agencies and private industry practices in contracting for substantially total support services are worthy of research.

The authors are deeply appreciative of the assistance and cooperation given by Army, Navy, and Air Force military and civilian personnel, without whose help this study could not have been made. The total candor and thoroughness with which

data and experiences were freely presented was of particular value.

Obviously the authors accept exclusive and total responsibility for errors in fact and concept that may appear herein. The conclusions are those of the authors and they alone are accountable for them.

Particular thanks are due to the Naval War College and Professor Hugh Nott, Director of the Center for Advanced Research, and Professors Chantee Lewis, Richmond M. Lloyd, and Robert E. Athay, all of the Naval War College Management Department, for their helpful advice and guidance. A special note of gratitude is expressed to Mrs. Deborah Tavares and Mrs. Christine Anderson, also of the Naval War College, for their patience and professionalism in typing the manuscript.

CHAPTER I

INTRODUCTION

Background. Office of Management and Budget Circular A-76 (OMB A-76) emphasizes the Government's policy of relying on the nation's private enterprise system to supply its needs. It further delineates to all executive agencies the procedures and explicit rules to be followed in making determinations as to the alternatives available for the provisions of goods and services. Finally, it states that commercial or industrial (C/I) activities which the Government performs directly for itself are not inherently governmental functions, hence their performance by government personnel, whether military or civilian, must be justified in each case as being in the national interest.

Study Objective. In response to the renewed emphasis on the national policy of contracting out for C/I functions, this study will review and evaluate that policy, particularly with respect to the implications of contracting out the majority of the base operations support functions. Hopefully, it will provide the person faced with the task of implementing this policy a management tool to utilize in the effort. This effort would certainly include the identification and evaluation of bases, and functions at those bases, which are best suited for conversion to contracting, selection of optimum contract methodology, i.e., what type contract, what approach to be taken in formulating the

statement of work, how to evaluate contractor proposals and the post-award implications of such a contract. The results of this study should provide assistance to the person involved in contracting, whether it be at the departmental, major claimant or individual command level.

Early Experience. While increased emphasis on a policy of reliance on the private sector to provide goods and services for the Government may be relatively recent, the basic question of whether to make or buy is not new. In 1795, American shipping was plagued by repeated and humiliating blows from Barbary pirates in the Mediterranean and from French Republican privateers operating in American coastal waters. Shippers, shipowners, and the public in general clamored for revenge and specific action on the part of the infant nation.

On 27 March 1794, Congress authorized the building of six frigates to form the beginnings of a United States Navy fleet in-being. Under direction of the War Department, six private yards were selected for the construction effort, spreading the work equitably among the states and thus gaining the greatest political advantage. Plagued by mismanagement, delays and cost overruns, all problems with a familiar ring today, the program was eventually reduced to three smaller frigates. The USS Constitution, "Old Ironsides," was one of those completed in 1797, more than three years after it was authorized. Increased dissatisfaction with the War Department as a contract administrator

was a significant factor in the establishment of a separate Department of the Navy on 21 May 1798. The continuing argument over the relative merits of in-house production as opposed to contract procurement had thus begun and the conflict continues unabated to this day.

Scope. This study is composed of six chapters. Chapter II traces the evolution of governmental policy with respect to contracting C/I functions in recent times from the days of the Eisenhower Administration to the present. The major points of OMB A-76 are highlighted, recent Department of Defense (DOD) implementing actions are discussed, major problem areas are introduced and possible future program implications are reviewed.

In Chapter III, the central issue of criteria to be used in selection of functions which are candidates for conversion to contracting is addressed. Factors which must be considered in this selection process are reviewed and definitive guidelines and potential pitfalls are offered.

Chapter IV reviews various contract methodologies, analyzing the advantages and disadvantages of different types of contracts, specifications and evaluations of contractor proposals.

Post-award implications which could be crucial to a successful conversion to contract operation are reviewed in Chapter V. Here are addressed nuances which could prove to exercise great

impact on the administration of an effective contract, including the need for early development of a team concept between the contractor and the Government.

Finally, Chapter VI presents the study conclusions and offers recommendations which have evolved from the research performed in writing this paper.

For the reader interested in further research on this subject, Appendices I, II, III and IV provide copies of A-76 documents themselves as well as implementation experiences of the Army, Navy and Air Force. It should be noted that the appendices presenting service experiences are not meant to be all inclusive, but, rather, a synopsis of study group discussions with personnel involved in past implementations augmented by a review of various instructions and documents which addresses the subject of contracting out. Personnel contacted are listed at the end of each service appendix and the serious student of OMB A-76 may find the bibliography helpful in continuing his research.

CHAPTER II

COMMERCIAL OR INDUSTRIAL GOODS AND SERVICES

Background. The policy of the Government not competing with the private sector was first promulgated by President Eisenhower in Bureau of the Budget (BuBud) Bulletin 55-4 which announced what became known as the "De-Competition" program. This policy stated that the Government would not provide goods or services that were commercially available, and it made no mention of cost comparisons. The program met with considerable opposition, and the Congress attached a rider to the 1955 Defense Appropriations Bill that required case by case Congressional approval for any base closures resulting from implementation of the policy. It is reasonable to assume that the Congress suspected that large corporate interests were the motivators behind Eisenhower's program. While the policy was never formally rescinded, the program was soon deemed unworkable and fell into disuse.

The Kennedy administration took no specific action on the subject of Government as a self-provider of goods and services. Then on 3 March 1966, President Johnson, in a memorandum to his heads of departments and agencies, revived the essence of the program in announcing that he had directed the BuBud to issue detailed guidelines for making determinations as to when

the Government should be a self-provider. The original BuBud Circular A-76, issued on 3 March 1966, announced the national policy for acquiring commercial or industrial products and services for Government use, along with a burdensome reporting requirement. Subsequently, the program terminology centered about the phrase "Commercial or Industrial (C/I) activities." OMB A-76 was revised and reporting requirements somewhat simplified on 30 August 1967, and this document is still in force today. (See Appendix I)

This policy languished in the Executive departments until 24 July 1976 when a President Ford memorandum directed a major re-emphasis on the national policy with respect to C/I functions. Three days later, on 27 July, OMB addressed a memorandum to the Assistant Secretary of Defense for Installations and Logistics (ASD(I&L)) directing immediate and strong action to increase contracting out by utilizing newly promulgated cost comparison techniques. Finally, a revision of OMB A-76 was issued on 18 October 1976 which passed on the new presidential emphasis and gave the modified guidelines. Late 1976 and early 1977 saw a host of implementing directives issued by DOD and the Service Secretaries. Internal to the Navy, the Chief of Naval Material was formally assigned responsibilities for program implementation. The Carter Administration has in no way lessened program emphasis, and has elected to continue the policy as stated.

OMB Circular A-76. As previously noted the 3 March 1966 circular was superseded by one issued on 30 August 1967, and this, in turn, has been modified by an 18 October 1976 transmittal memorandum from OMB Director James T. Lynn. For the purposes of this study, references to OMB A-76 refer to the latter two Executive Directives.

OMB A-76, directed to all Executive departments and agencies, is most specific with respect to Government acquisition of commercial or industrial products in that it

...expresses the Government's general policy of relying upon the private enterprise system to supply its needs for products and services, in preference to engaging in commercial or industrial activity. This policy reflects the fundamental concept that the Government should generally perform only those functions which are governmental in nature and should utilize the competitive incentives of the private enterprise system to provide the products and services which are necessary to support governmental functions. Those commercial or industrial activities which the Government performs directly for itself are not inherently governmental functions, but rather are exceptions to the fundamental concept, and their performance by governmental personnel must be justified as being in the national interest.

The language of this last sentence is being interpreted literally, and consequently is causing a total re-thinking of the philosophy of performing C/I functions within the Navy.

OMB A-76 requires that each Executive agency compile and maintain a complete inventory of its commercial or industrial activities (by function and at each location). It further

requires that an initial review be made for each of these ongoing activities and that it be organized in such a manner as to ascertain whether continued operation of the Government C/I activity is in accordance with the provisions of OMB A-76. Activities validated for continued government operation must then be scheduled for a follow-up reappraisal at least tri-annually. C/I functions are presently excluded from OMB A-76 requirements only under the following circumstances:

- The activity is performed outside the United States, its territories, or possessions.
- Contracting out for the activity function would be contrary to existing law or regulation.
- The conversion to contract would alter the existing requirement that Executive agencies will perform for themselves the basic functions of management to retain essential control over their programs.
- It does not apply to products or services obtained from other Federal agencies which are authorized or required by law to furnish them.
- When implementation would be inconsistent with the terms of any treaty of international agreement.

All those Government C/I activities not specifically excluded based upon the factors listed above must be formally reviewed

for possible conversion to contract. Continued Government provision of products or services is allowable only under one or more of the following conditions:

- Procurement of a product or service from a commercial source would disrupt or materially delay an agency program.
- The activity must continue to be performed in-house due to combat support, military training, or mobilization readiness reasons.
- A satisfactory commercial service is not available and cannot be developed in a timely manner.
- The product or service is available from another Federal agency.
- The procurement of the product or service from a commercial source will result in a higher overall cost to the Government.

The 18 October 1976 revision to OMB A-76 not only placed greater emphasis on the national policy of contracting out for C/I functions, but it also added greater specificity to the methods for making cost comparisons between private and Government sources for goods and services. As an example, in computing the actual costs to the Government for civilian personnel services, it specified that the costs for employee benefits, including retirement and insurance elements, not normally budgeted for at the command level, must be included at

a directed assessment of 28.7% of salary costs, in lieu of the 8.4% amount that had previously been directed for use within DOD.* The revision further stated that the cost studies must be performed in accordance with accepted accounting practice and must be audited by appropriate audit agencies, as well as being available to all interested persons for review under the Freedom of Information Act.

Recent DOD Actions. In response to Administration direction to increase the percentage of C/I activities procured from private enterprise, on 23 August 1976, the Principal Deputy Secretary of Defense (Installations and Logistics) John J. Bennett issued an implementation memorandum to the Service Secretaries that stressed the requirement "to accomplish full implementation of the national policy" and "to take strong action to increase our contracting out effort." This directive in essence stated that non-cost reasons or exceptions for not contracting must be specific, precisely documented, and capable of sustaining their conclusions under close audit, and that pro-forma non-cost reasons will no longer be accepted as adequate causes for continuing C/I efforts in-house. More detailed and explicit costing techniques, guidelines, methodologies, and procedures were also dictated. Most importantly, this memorandum requires that in making comparisons between in-house and commercial costs, a procedure using only "firm-offers" must now be utilized.

* A Carter Administration revision to OMB A-76 issued 13 June 1977 changed the previously directed 28.7% assessment to 14.1%.

Prospective DOD contract costs previously utilized either engineering estimates or requested one or more prospective contractors to provide at no cost and no obligation, informational quotations for performing the work. The dangers and inaccuracies of this approach are obvious and this technique can no longer be utilized. Cost comparisons will now be made only by an actual solicitation for offers, with prospective contractors providing actual bids to provide the service. The Government in-house estimate will be simply another bid in competition with commercial proposals. The inference is that the lowest responsible quote, Government or commercial, will then get the job. These changes serve to further tighten the procedure for justifying a continuation of in-house efforts.

In response to the increased emphasis and explicit direction, the Chief of Naval Material, the Navy's C/I Program Manager, through NAVMAT Notice 4800 of 21 December 1976, informed the Navy bureaucracy of this new program attention and promulgated special Navy guidelines for implementation. This announces that the program intent is real and long term, and that ritualistic and shallow cost comparisons and justifications for continuing in-house efforts will no longer be accepted. The national policy is here to stay, and the Navy along with all others, must replace subjective parochialism and inertia with objective realism.

GAO Involvement. Coincidentally, on 28 March 1977, the General Accounting Office released a report entitled "How to Improve Procedures for Deciding Between Contractor and In-House Military Base Support Services." The report, in restating the national policy of obtaining commercial services from private enterprise, faults the services for their present record of providing 77% of C/I work (based upon dollar volume) from in-house sources, for improperly excluding many C/I functional areas from contract consideration, for incorrectly applying the explicit costing guidelines of OMB A-76, and for delaying the program review and appraisal process. The report specifically recommended that the Secretary of Defense redefine DOD's classification system for C/I activities to facilitate the services' identification of functions to be reviewed, to reconsider many C/I activities that were previously wrongly excluded from contract conversion consideration, to ensure that the services expedite conversion review and approval procedures, and to revise existing DOD directives to include all real properly maintenance and repair activities in the OMB A-76 potential conversion category. Here again, the emphasis is placed on increasing the amount of contracting out for services.

Problem Area Overview. The promulgation of national policy is not, in itself, overly difficult; however, the implementation of any such policy within the national bureaucracy can sometimes

be near impossible. Execution of the initiatives of OMB A-76 and its implementing directives exemplifies this dilemma. Perhaps the greatest hurdle to overcome in this regard is to develop a true understanding of the program in order to overcome the latent inertia within the bureaucracy. Such expressed and emotional concepts as a perceived loss of output control or responsiveness, envisioned increased out-of-pocket costs due to contracting, and a projected reduction in output quality are most often voiced as reasons for objecting to this program. This causes a concurrent decrease in actual objectivity in conducting conversion comparison studies. This obstacle can be overcome only by high level support and a thorough program of education, conducted at all levels. Related to this problem of understanding is a service's inability to recognize the capability and manpower requirements essential to convert a function to contract, and to properly administer it. Often, only time can provide this recognition.

A second major problem is the apparent dichotomy of philosophy within Government itself. On the one hand the Executive Branch promulgates a national policy of increased reliance upon private enterprise, accompanied by explicit and rigid implementing directives, in essence to force the program results. On the other hand, difficulties in implementation are heightened by legislative branch actions, probably engendered by suspicions over Administration motives. Parenthetically, as of this writing,

there exists a rider to the Fiscal Year 1978 Defense Authorization Bill which would delay any DOD proposed contract conversions for about one year, and requires that DOD submit a detailed report to the Congress on the impact of OMB A-76 implementation. Obviously Government employee unions' fears over losses of power, perceived massive reductions in force, and congressional constituency demands are what engendered this action.

A major problem at the command and major claimant level concerns budget base implications. From a global or macro-economic viewpoint, contracting out most often results in a more cost-effective alternative due to such in-house cost elements as pension benefit allowances, tax base implications, costs of capital aspects, military pay accounting, and the like. However, from a micro viewpoint, for the base commanding officer and for the major claimant, the actual budget base cash flow to pay contract costs could be greater than the present in-house alternative, particularly if extensive military personnel are involved. The problem results in a requirement for early-on re-programming among fund accounts.

For the military services, a unique problem area that manifests itself in most all conversion studies concerns military personnel rotation base implications, and specifically the preservation of a minimum number of required CONUS billets for deprived ratings or occupational specialities. The problem, of course, becomes tremendously more severe as higher percentages

of C/I functions are contracted, and it further is not unique to the Navy, as the Army and Air Force are similarly effected.

A listing of these major problem areas could be greatly lengthened; however, it can be focused on the classic issues of "who, what, and how." This study will consider each of these in terms of their specific implications in the chapters that follow. The "who" will be discussed in an analysis of the basic question of determining those areas that should or should not be converted to contract. The "what" will be addressed in a study of the means, with alternatives, for executing such contract conversions. And finally, the "how" will be covered in terms of how best one can administer the program after implementation, including a discussion of the pitfalls of personal services violations.

Future Implications. Notwithstanding the program implementation difficulties, the problem of education within the bureaucracy, Government employee union engendered congressional concerns, and inherent inertia obstacles, the emphasis for expanding contract conversions in the C/I area can only continue to increase in the future. The emphasis on decreasing the roles of Federal employees, coupled with the continued demands for Government stimulation of the private sector, can only cause program acceleration. Obvious advantages to the public at large, excluding certain impacted groups such as civil service unions, include reductions in Government capital investments,

lesser numbers of Federal employees, increases in the private sector tax base (both local and national), decreases in Federal subsidies and added stimuli for creating additional employment and capital expenditures in the free economy. It can be argued effectively that these benefits will offset any problem areas, resulting in continuous and increased program emphasis and pressures for additional contract conversions.

This study is thus undertaken to provide the reader with a better understanding of the program itself, and to guide individuals toward improved methods for implementation. Hopefully, it provides helpful suggestions for avoiding both the obvious and often not so obvious difficulties, along with innovative and valuable direction for program execution. The analysis is intended to be of benefit to both the field activity implementer as well as the major claimant or headquarters manager.

CHAPTER III

CRITERIA FOR CONTRACT CONVERSIONS

Introduction. A national policy which directs the Executive agencies to rely almost exclusively on private enterprise for the provision of commercial or industrial goods and services may be easy to promulgate, but actually, the realities of implementation are more complicated. This chapter addresses those problems associated with the identification of activities and functions which are candidates for conversion to contract operation. It is emphasized that the focus of this chapter is on multiple function or near total base support contracting, and that it touches only briefly on the methods utilized in the analysis of individual functional areas. The question of a centralized or decentralized approach will be addressed along with the roles that should be taken by the Navy Department, the major claimants and the commands themselves. The advantages and disadvantages highlighted by cost-benefit analyses as well as the effects of non-quantitative factors that may be involved will also be covered.

Within the Federal Government, bureaucratic inertia is probably the major impediment to executing any new program. With respect to OMB A-76, it manifests itself early as managers attempt to identify functions or locations for conversion to contract. Generally, managers are comfortable with the status

quo, and fear or distrust any changes. Both OMB A-76 and DOD Directive 4100.15 state that contracting will not be used to avoid established salary or personnel limitations, but rather to implement national policy unless in-house methods are less costly or more advantageous in other ways. Realistically, however, manpower and funding constraints placed on shore base managers can only continue to become more severe and, for this reason alone, it appears prudent to develop a structured means for evaluating and implementing multiple function contract conversions.

In summary, what follows is an analysis of selection procedures, with a description of problem areas and proposed methods. More importantly, included herein is a list of major factors that must be evaluated prior to implementing a changeover. These should be used primarily after tentative selection of a base where a multiple function contract conversion may be made. Failure to address these items could cause serious problems for the total conversion program.

Prior Experience. In reviewing Army, Navy, and Air Force experiences in total base support contracting, it appears that no consistent procedure was employed in site selection. No one seems to recall why or how Vance

Air Force Base was selected by the Air Force. The Navy has chosen a new and operationally oriented Trident Systems Support Base as its initial test case, while its candidate second site is a totally non-operational, primarily administrative shore facility. The Army also displays similar inconsistency in that Fort Gordon, Georgia will convert most all commercial or industrial functions excluding those related to public works, while Fort Eustis is planning to convert only the public works or base engineering functions. Thus, no single common rationale for selection of either location or function appears to exist among the services.

Initial Criteria for Functions. In determining where multiple function conversions should best take place, there are two principle methods for selection. The first of these is the centralized approach where the Headquarters or major claimant not only chooses the activity or type of activity, but stipulates the schedule to be followed in the conversion. The alternate approach is to allow the concept to originate at the activity level, usually as a result of the OMB A-76 functional review requirement, and then to allow for eventual evolvement of total base conversion. The optimal

method is probably a combination of the above two techniques.

The directed method could include the utilization of a structured evaluation system which might select a specific base or class of bases, such as all aviation training facilities in the southeast. While it may override resistance at the field level, ease of implementation is not assured, and possible pitfalls are apparent. Local command managers may not favor the concept, and either delay implementation, or seek ways to ensure failure. The most difficult task, however, is the development of objective criteria for selecting bases or types of bases best suited for conversion. The number of parameters involved, and their varied importance makes the design of such an evaluation method very difficult.

A better approach might be to begin at the field activity itself, using the already required triannual C/I inventory review as a starting point. The activity itself performs these reviews, and is directly concerned with the results. Basic criteria for individual functions are provided in OMB A-76 in terms of accepted exclusions and detailed costing procedures. As previously noted, resource constraints will continue to force objectivity upon the local Commanding Officer, and the C/I reviews, subject to both formal audits and increased headquarters interest, should be more accurate.

Thus, the starting point should be the result of the local function by function review, with exclusions made only

where they apply. This required review, particularly when utilizing the revised costing procedures, should result in the identification of a group of functions that appear to be more cost effective if obtained from private enterprise. When the results yield a number of such functions, another decision situation presents itself. Both the activity and higher headquarters must begin analyses centered about combining these functions under a possible single support contract, in lieu of a group of individual contracts. This technique, for initially identifying possible multiple function conversions has been made extremely difficult because of the recent DOD directive that requires firm bid/offer methods for making cost comparisons. This problem will be addressed in detail later in this chapter.

Initial Criteria for Total Contract. Having identified a group of candidate functions for conversion to contract operation at an activity, selection of the best implementation procedures is required. What is sought, in essence, is a fixed or well defined output in terms of C/I goods and services at the lowest total cost. The alternatives center about whether or not to group the candidate functions generically or geographically to achieve the desired end result. How many and which functions should be grouped under one contract, which functions are central, and which are peripheral? The local command, most knowledgeable of its own operations, and higher command levels, more sensitive to the broader

implications, must work together perhaps on a team basis with assistance from, say, the Navy Area Audit Service, the Naval Facilities Engineering Command, or others. Is it best to have a single multiple function umbrella contract, or do conditions suggest a group of smaller individual contracts?

In evaluating this decision, the advantages and disadvantages of each approach must be considered. One must recognize that, in contracting out for services, what is being procured is not only manpower, but management expertise as well. An umbrella type contract increases the management requirement and should encourage the larger more experienced firms to submit proposals. This generally leads to increased awareness of management techniques that are advantageous to the Government. The umbrella contract also affords more flexibility, in that functions can be added to or deleted from the contract more easily to account for mission changes or operational tempo. A single function contract must be allowed to expire or procedures must be initiated to terminate the contract for the convenience of the Government with associated difficulties. This flexibility aspect can be of prime importance at a large military complex with mission essential or operations support roles.

The umbrella contract is also of value when the functions involved are complicated or time constrained, since the larger firm normally has the ability and resources needed to react to changing operational requirements. It is usually

more capable of tapping labor markets as required, or subcontracting more easily when necessary. Further, the large firm can be of value in implementing a contract conversion in a depressed area as it will infuse capital resources into local financial institutions and increases the financial base for area loans. The major benefits from umbrella or single source contracting are generally better control and responsiveness. The base Commanding Officer looks to one instead of many sources, assuring responsiveness in meeting special requirements, whether they be weekend exercises or ongoing operations.

Obviously, single contracts for multiple functions, are not without some disadvantages. Caution must be exercised in those cases where a large firm literally "buys-in" at a low first year cost, in anticipation of either escalating costs in following years or recouping initial losses through change order increases. Once awarded and functioning, it is difficult either to terminate an umbrella contract for cause or to allow an option to expire with a view toward re-advertisement. The trauma and risk of such an action could be so great at an important station that management might tend to endure difficulties or even costs to a substantial degree simply to avoid such problems.

The umbrella contract, while of great value in implementing OMB A-76, does restrict capabilities in executing other aspects of national policy. Multiple function contracts with large firms, for example, usually do not allow Government

participation in the use of small business set asides for procurement. While the contractor may sub-contract with small businesses, the Government does not retain absolute control, and the prime contract for even a moderate size station will be of such magnitude that big business will invariably get the award. A trade-off between better management expertise from large firms and more small business awards with smaller firms is evident. Similar problems also manifest themselves with umbrella contracting in attempting to maximize awards to minority owned firms in response to yet another national policy.

While umbrella contracts provide many benefits, they require greater effort in the preparation of statements of work and contract specifications. Single function contracts, because of their very nature, are more simple initially, easier to readvertise and award and allow smaller local firms to participate more in the competition.

In summary, once a number of candidate functions are identified, a decision process addressing the advantages and disadvantages of multiple function contracting must be pursued. While this involves the local command quite heavily, participation by the major claimant level or higher is also essential as will be shown in the discussion that follows.

Procedural Difficulties. As noted in Chapter II, OSD has revised C/I cost comparison procedures by directing that cost comparisons should be made by the "firm offer" technique, where a Government bid for doing the work competes with

industry bids, and an award is made unless the Government is the low bidder. This directive further prohibits the Government from costing commercial prices by either engineering estimates or the use of informational bids. This procedure was forced upon the services since OSD had little faith in service estimates of contract costs, doubted their objectivity, and suspected the use of pre-determined conclusions.

Admittedly, service or local parochialism was present, but the new procedure places emphasis in the wrong place and could cause more problems than it solves. This technique almost forces a command, a priori, to analyze and evaluate contract conversions on a function by function basis resulting in a group of individual contracts. Commanders will hesitate to aggregate functions under firm bid/offer procedures without first analyzing all aspects of the individual functions.

Assuming that objectivity can be obtained by proper control and emphasis, it can be argued that the present OSD direction should be somewhat modified. The services should be allowed, possibly at triannual inventory time, to informally assess the probability for conversions on a function by function basis, using engineering estimates in lieu of immediately moving to firm offer procedures. Once the candidate functions are specified, the above procedure for evaluating multiple versus single function contracts would then be employed. Only after this decision is made, should the firm offer approach be mandatory.

This more thoughtful method for assessing conversions would result, not just in routine single conversions, but also in the opportunity for functionally grouped conversions when warranted. This approach would also lessen the heavy in-house burden now experienced in requiring a local command to prepare a host of detailed contract specifications within a short period of time.

In retrospect, what is envisioned is not a lessening of the emphasis on the policy set by OMB A-76 or OSD, but rather a timing modification in the procedure. The individual C/I functions are individually costed out and audited for in-house accomplishment, contract estimates are developed, candidate conversions identified, umbrella contract or not decision is made, and finally, firm offer procedures are employed for either the multiple function groupings or those single function areas.

Assuming a multiple function contract seems appropriate, other factors must be addressed now before implementation begins. The sections that follow provide guidance on four major areas which must be considered in this process.

Operational Capability Implications. OMB A-76 lists five circumstances, or exceptions, under which the Government may provide its own C/I goods and services. Two of these, non-availability of a satisfactory commercial source (no proposers) and the availability of the item or services from another Government agency, are straightforward and need

no explanation. A third exception is possible where procurement from a commercial source would result in a higher total cost. The mechanics of this exception are discussed in Chapter II and in other sections of this chapter. The final two exceptions may be applied when either procurement from a commercial source would disrupt an agency's program or when in-house procurement is necessary for military training or mobilization readiness. These exceptions will be further discussed in this and the following section.

Although recent emphasis on full implementation of the intent of OMB A-76 has stressed that non-cost reasons for avoiding conversions will no longer be accepted pro forma, it must be recognized that there are often valid reasons for utilizing the exceptions. In considering a hypothetical case, a series of functions have been grouped for conversion, and it must now be determined if any overriding reason exists for not making the change. First, one must evaluate the nature of the command itself, and its tempo of operations. Are its ongoing operations so complex, interrelated, or time constrained that a contract conversion would be too disruptive and could not be tolerated? Such a case is difficult to imagine, but its possibility must be considered and an appropriate decision made. It is interesting to note that as critical as the Apollo space program was, many NASA base operations support efforts were contracted for, during the height of the program.

A prime consideration in evaluating such tempo exclusions involves the mission mobility aspect, since the indigenous capability of related military units to deploy is a major element for consideration. The aircraft maintenance function can be analyzed in this light. Conversion of this function where only a training squadron is involved could quite readily be accomplished, while a similar change-over for an operational fighter squadron might be rejected. The latter must have an effective in-house capability that can deploy with the unit when called upon to do so.

Related to the above is a required review, at the macro level, of needed skill retention for military contingency reasons. This analysis can be accomplished at neither the local command nor the major claimant level, but rather must be done at the service level. Such a study involves a determination, based upon analyses of contingency plans, of the required minimum number of personnel within each skill category that must be retained at all times. Obviously, early conversions would not present great difficulties in this regard, but as the number of conversions throughout the service are increased, this item could become critical.

Due to a possible lack of personnel continuity as a result of changes in prime contractors, the advantages of Government employees must also be considered in evaluating changes at an operationally oriented base. The aspect of internal and external security could also play a major role.

Military Billet Difficulties. OMB A-76 recognizes the unique needs of the military services with respect to combat support training from the stand point of both the individual service member and that of unit training and readiness. For the Navy, this problem must also include a concern for both skill level retention and the necessity to provide adequate sea to shore rotation.

As previously stated, certain numbers of personnel having required operational specialities must be maintained within the total force to ensure contingency capabilities. When Navy people are ashore, they should be employed within their speciality, since placing them ashore in a "make-work" or menial position, not only takes away incentive and pride, but ensures a loss of skills. Accordingly, there are often valid needs for C/I type efforts to be performed ashore by naval personnel.

Today's all volunteer force emphasizes the effect of extensive contract conversions on, in many cases already critical, sea to shore rotation ratios. A capable and skilled volunteer sailor can not be expected to continue to endure the family separation and other hardships of continued duty at sea. The present retention difficulties of the nuclear submarine force, despite many seemingly attractive monetary compensations, illustrate this problem quite well.

Again, at the Navy Department level, studies must continue to determine, for each occupational rating skill, the minimum acceptable sea to shore rotation ratio.

Adequate shore billets must be identified to support these ratios, and the billets must be allocated so as to ensure that the work is skill enhancing. To make contract conversions solely to implement OMB A-76 or save on operating expenses would be naive. The importance of giving thorough and objective attention to this matter cannot be overemphasized. Military bases exist only in support of national defense policies, and to operate them to the detriment of such policies is counter-productive.

Another thought related to the military billet problem is in order when making contract versus in-house cost comparisons. In costing the in-house alternative, all cost elements related to the utilization of military personnel should be included. The inference is that, if the function were contracted, these military costs would be avoided. If, however, due to the rotation base considerations outlined above, the shore billets are not eliminated and not taken as end-strength reductions, but rather reprogrammed elsewhere or to other tasks, the cost analysis is faulty. This consideration is difficult to account for at the local level. At the departmental level, if military reprogramming decisions are made, great care must be taken to properly adjust cost studies to reflect these decisions. The implications of opportunity costs as well as direct and indirect costs must be fully evaluated in all conversion studies. These costs become more significant as greater percentages of C/I functions are converted throughout the services. Research

indicates that inadequate attention has thus far been devoted to this problem.

Labor Relations Aspects. This topic is worthy of extensive additional research, and could easily be the subject of a paper itself. What follows is a synopsis of major factors to be considered in evaluating conversion potential. Of concern in all such conversions is the impact of Government employee unions. At those stations where strong union activity is present, a well organized and effective campaign may be expected to limit or set aside contracting efforts, and such actions will most often include legal or court procedures. At the local level, the major pitfall concerns interference with collective bargaining rights of the unions. Previous cases have proven that there is no obligation to bargain on procedures to be used in making the decision to contract, as this is within management prerogative; however, there is a specific obligation to bargain on procedures to be used in making arrangements for employees impacted by the decision to contract.

The guidelines to be followed should center about a policy of total candor and free flow of information. Employees and their unions must be informed early concerning what is being considered, and must continue to be so informed as the conversion study progresses. To do otherwise would be foolish, and could also raise legal questions. The

implications of the Freedom of Information Act add emphasis to this aspect. Thus in evaluating conversions, adequate attention must be given to considering the rights of employee unions, their strengths and anticipated actions or reactions.

Another significant factor which must be considered is potential political impact. Congressional constituencies can exert major impact on any decision and, in fact, can make or break a conversion decision. Here again early notification of intent, with attention to the free flow of information is essential. Obviously, in the face of Congressional and union opposition, a proposed conversion is in trouble, even if there is evidence indicating significant monetary advantage involved in such a conversion. Certainly, each case must be evaluated on its own merits, but political constraints are generally regarded as being responsible for the defeat of Eisenhower's effort to rely exclusively on private enterprise. Today's political opposition is manifested by a possible rider on the Fiscal Year 1978 Defense Authorization Bill limiting conversions and can quickly override even the most convincing rationale based upon cost effectiveness. Of course, both union and congressional feelings can be modified depending on local economic conditions, and this factor must also be evaluated.

If the conversion calls for elimination of a large number of military billets, there could actually be a supply deficiency in the civilian labor market, with associated economic benefit to the local area. As a result, evaluation

of the geographic or regional factors must be made. Does the area have ready availability of skilled or unskilled work forces or would employees have to be brought in by a prospective contractor? What are the respective implications?

Of major concern to the operational commander in any conversion are the implications of an actual or threatened strike or work stoppage by contractor personnel. Since no unique legal considerations pertain to the contract work force because it is employed on a military base, this concern is valid. A review of the proposed contractor's labor relations record is recommended, and proposers must include a strike contingency plan as part of their proposal. Despite this, basic responsibility remains with the Government to ensure that vital operations are not disrupted. Thus, it is critical that detailed internal strike contingency plans be developed for all conversion cases. Such approaches as the use of base military personnel when permitted by law, or even the deployment of a work force, military or civilian, from another base should be considered. These work stoppage effects must be considered and plans developed to cope with them, but these actions must also be taken with regard for legal implications as well as good management practices. Again, this difficulty becomes potentially more severe as greater percentages of functions are converted to contract.

Before leaving the topic of labor relations implications, a word of caution is in order with respect to the effects

of personal services contracting or "body contracts" as they are sometimes called. The Civil Service Commission has determined that when work is contracted that creates what in effect is an employer-employee relationship between the Government and contractor employees, such a relationship constitutes a violation of appropriate personal services laws. The procedures and in-the-field practice in this regard are varied and open to individual interpretation, but the key point is whether or not supervision and control of the contractors' work force is, in effect, with the Government. The important caution here is that management be aware of this pitfall and seek expert advice and assistance to prevent difficulty.

Local Impact Considerations. The last major area for consideration in evaluating the feasibility of making a multiple function conversion to contract involves an assessment of local impact as a result of the action. Here again, attention must be devoted to political implications. Specifically, once the proposed conversion technique is decided upon, a review must be made concerning the acceptance or lack thereof of the conversion at the local, state, or national political level. Questions such as the degree and type of political philosophy of the region, attitudes toward big business, local entrepreneurship, the military, and direct impact on local economic tradition must be considered and evaluated.

In analyzing local impact, attention must be paid to geographical or demographic factors such as effects upon the local housing market, changes in minority work forces, local employment patterns, and even such items as changes in commuter traffic volumes and patterns. The more rural the location in question, the more important seemingly insignificant items could become. Would a massive contractor hiring program to replace eliminated military manpower grossly upset the local general wage structure? What impact will be experienced in the regional income and property tax base? Issues such as changes in local school districts and utilities systems could surprisingly become significant and/or emotional. Major changes from in-house to commercial sources could actually over tax local community support aspects while the on-base schools and housing facilities sit vacant.

This list could be greatly expanded, but the point to be made is that local impact items must be considered, because present environmental laws require that this be done. The decision-maker must not slight this requirement for a thorough environmental impact assessment, for to do so could jeopardize the implementation of an otherwise successful conversion to contract.

Summary. This chapter addressed the criteria to be used when considering conversion to contract. Its concepts apply to the local command, the major claimant, and the departmental level. Procedures were addressed concerning

initial identification of the individual functions and generic groupings of the functions, and a comparison of the advantages and disadvantages of umbrella type contracts versus multiple contracts. Finally, present difficulties caused by recent OSD Directives in implementing OMB A-76 policies were reviewed.

Once a tentative decision is made to implement a multiple function contract, the decision-maker faces four major areas that should be considered in order to make the conversion a success, or to at least avoid pitfalls that could make the conversion difficult.

The concepts presented are not all-inclusive, but they do provide an orderly approach to initiating studies concerning make or buy decisions. Emphasis has been placed on not attempting to select types of commands best suited for conversion, but rather to initially select functions at a command which are candidates for this conversion. A proposal in this regard was made that OSD implementing directives be changed.

Perhaps the principle lesson to be learned is that a priori conclusions simply to implement or to circumvent national policy must be avoided. Objectivity and candor must prevail throughout the process at all levels of decision making.

CHAPTER IV

CONTRACT METHODOLOGY

Introduction. This chapter will discuss the major items to be considered from the time the decision is made to convert to contract until its award. The discussion will deal primarily with multiple function service contracts, although many of the thoughts may be applicable to other types of contracts. The main topics to be covered are philosophy of contracting, statement of work, type of contract, and the proposal evaluation.

It should be noted that these topics are not all inclusive and the discussion of them is not necessarily bounded by Navy policy. The discussion is, however, bounded by the parameters of existing laws. Due to time limitations, this chapter will concentrate on topics which are considered to have the greatest influence on the success of the contract. It is hoped to stimulate thought on the rationale for contracting as well as to encourage new and innovative concepts to "get the job done" more effectively.

Philosophy. Service contracts require time and effort to implement and normally do not provide for a clearly defined end product. Service contracts, by definition, cover many of the routine tasks found at any installation, such as janitorial and grounds maintenance, as well as the more sophisticated requirement for architect-engineer services and research and development. In the context of this paper, service contracts

will refer to routine base operation and maintenance or support functions.

Most readers have had some experience with service contracts, either involving the provision of technical skills and/or specialized equipment, such as elevator inspection and maintenance or with the less technical services required by janitorial, grounds maintenance or messmen contracts. Experiences will vary from good to bad, with a successful contract often depending to a large measure on the individual contractor.

As more functions are placed under a single contract and the complexity increases, contractor management initiatives play a key role in the success of the contract. At this point the "multiple function service contract" comes into being. Generally, a multiple function contract encompasses functions of sufficient number and complexity to require full time, on site expertise, capable of making management decisions. These decisions involve trade-offs between labor, capital or lease expenditures and the establishment of policies involving the use of employees. The concept of procuring management expertise, as well as manpower, provides the potential for significant cost savings. This concept cannot be overemphasized and a properly prepared and executed service contract can provide the flexibility for real management initiatives so important to success.

The type of contract is dependent on a number of variables, including incentive and risk considerations. Additionally, the type of contract to be used must be consistent with the overall management philosophy and capability at the installation and its senior commands.

The multiple function contract, although simple in concept, requires a professional approach throughout to be effective. The primary resource utilized to perform services is people and effective management of these people is essential, particularly during the conversion phase, which will probably require in excess of one year. During this time, a strong public relations program is necessary to ensure that all personnel and unions are informed of what is being planned and why changes are being made. The positive, professional approach must be continued throughout all phases of the planning.

The concept of concentrating on the end results and permitting the contractor to determine the method of accomplishing these results tends to ensure that the contractor will provide top management talent. The necessity to concentrate on the end product required is also important from a legal aspect. There are legal restrictions to contracting for personal services, except in specifically authorized cases. A recent decision in a court action brought against NASA has added emphasis to the personal services laws. In effect, the court held that when a contractual situation is created which is tantamount

to the formation of an employer-employee relationship between the Government and contractor personnel, there is a violation of the law.

Statement of Work. The vehicle used to inform the contractor of the scope of the work he is expected to perform is the specification or statement of work portion of the contract. The statement of work is sometimes referred to as the "meat" of the contract, as opposed to the standard clauses which comprise the "boiler plate."

Requirements definition through the statement of work provides a common base from which the contractor and the Government may determine the cost of work in terms of resources required. In the final analysis, resource requirements are expressed in terms of dollars, but the real effort is in determining the amount and relative proportion of manpower, material and equipment needed.

Service contracts are primarily concerned with the labor portion of costs and the multiple function contract, with its larger scope, adds complexity to its execution. Not only do numbers of personnel increase, adding more supervision and the requirements for more formalized procedures, but the ability to substitute methods of accomplishment becomes more important. There are two schools of opinion as to who should exercise procedural prerogatives, the Government or the contractor.

Since the functions performed by service contracts are being provided by military and civil service personnel worldwide, the tendency is to expect the contractor to utilize policies and procedures already in use by the Government. While these procedures may work well for in-house operations, the system of rules and regulations used by government agencies was developed to ensure standardization and compliance with specific laws. Some of these laws will not apply to a contract operation and, as a result, the same policies and procedures utilized by the Government may not be necessary. Imposition of standard rules on the contractor can result in inefficiencies and more expense to the Government. More importantly, forcing the contractor to utilize the Government's system may be a factor which results in a court ruling that a contract is not a legal means of obtaining services.

The statement of work for multiple function contracts provides a means for allowing more flexible operations, which can result in increased efficiencies and lower costs. A performance or end product oriented statement of work provides for contractor innovation. Specific direction, with little room for variation by the contractor, will result in less management expertise being used.

The flexibility to be allowed the contractor is dependent on a number of factors. Acceptability of risk refers to the ability of the Government to accept a short time degradation

of efficient operation on the part of the contractor and is one of these factors. A time or quality deficiency in accomplishment of routine building maintenance may not be critical, but the same type of deficiency in aircraft maintenance could result in property damage or loss of life.

Legal restrictions limit the degree of flexibility such as in the handling of classified material. Still another limitation is in staffing for community service functions, such as fire protection and police services. In these cases, there are normally national standards for personnel staffing which relate to both manning levels and technical skills required.

The type of statement of work to be used can be determined by considering what is to be accomplished, the acceptable level of risk and the extent to which staffing standards are applicable to work accomplishment. The performance specification is preferable for lower risk tasks where legal and technical standards permit the contractor to exercise management initiatives.

Because preparation of the statement of work can appear to be a difficult problem when first encountered, the natural tendency is to use an existing statement of work with only minor changes. The use of this procedure can be invalid since the statement of work must fit the conditions existing at the installation involved. To be fully compatible with the specific case, it should be prepared by technically qualified personnel who are involved in supervising the work. A technical

or specification writer will be useful in providing continuity and clarity in the overall statement of work, but the appropriate functional organization must be fully involved in its area of responsibility.

Since the statement of work will be used as the basis for evaluating the contractor's performance and will be a source document used in legal interpretations should a claims action arise, the necessity for consistency and clarity in this document is essential. In the preparation phase, reviews by third parties and supervisory personnel are essential, and should be considered from two points of view. From the Government view, the statement of work must adequately portray the work to be accomplished, must include all essential elements, and should not apply unnecessary tests and procedures. The contractor viewpoint will consider such items as the ability to estimate requirements and what degree of flexibility is allowed to achieve the result specified. These essential aspects in preparing the statement of work are time consuming but are invaluable in achieving the most useful statement of work.

Contract Type. The specific form of contract to be used is basically determined by the amount of uncertainty and degree of risk involved in contract performance. The more uncertainty involved, the greater is the risk which must be assumed. The range of contract types available is designed to accommodate the varying degrees of uncertainty and to avoid placing too great a cost risk on the contractor.

In the private sector of the business world, the basic motive for existence is profit and effective and economical performance is rewarded by an increase in these profits. Choice of a contract type that facilitates the application of the profit motive can result in greater returns to the Government in higher quality, more timely delivery and lower total costs.

There are two basic types of contracts available for defense contracting, the fixed-price and the cost-reimbursable. The fixed-price contract tends to place maximum risk on the contractor, while the cost-reimbursable contract minimizes that risk. The fixed-price contract normally provides the contractor with the greatest incentive for economies, thus allowing for increased profits. Conversely, cost-reimbursable contracts minimize contractor risk and reduce the incentive for economy of operation. Variations of these two contract types permit the application of the one best suited for a given situation.

A fixed-price contract is appropriate for use when the scope of work and costs for that work can be defined reasonably at the outset of the contract. Competitive pricing must be available and the uncertainties involved in contract performance must be identifiable to the extent that their impact on costs can be determined.

The firm-fixed-price (FFP) contract is the simplest contract type and theoretically assigns maximum risk to the contractor as well as providing maximum profit incentive. For

service contracts, an economic price adjustment clause can be used to offset inflationary problems in contracts over \$50,000 and for which the performance period exceeds six months. This adjustment provision is normally invoked at the time of contract renewal rather than during a period of performance. The FFP contract can be competitively bid or negotiated, but is generally more appropriate, due to its simplicity, for single function service contracts rather than for those covering multiple functions.

While the FFP contract has high incentives for economy of operation, there is little, if any, incentive to improve quality or delivery time over that required by the specifications. In order to encourage contractors to provide more management effort, which will improve quality and increase production, inducements other than those found in FFP contracts are necessary. An incentive contract, when properly formulated, encourages the contractor to not only reduce costs, but to exceed specified quality and service standards. The incentive contract can be either the fixed-price or the cost-reimbursable type. Contract types normally utilized for multiple function service situations are the fixed-price-incentive-firm-target (FPIF) and the cost-plus-award-fee (CPAF). Since the magnitude of operation of multiple function service contracts requires the contractor to exercise management economies in improving quality and service, an incentive type contract is essential if the desired results are to be achieved.

The FPIF contract provides for adjustment of profit and establishment of a final contract price by a formula based on the relationship between actual cost and target cost. It is also possible to include incentives for increased performance characteristics, e.g., aircraft speed or load capability. While this would normally apply to development contracts, a similar provision could be beneficial in a service contract, an improved readiness rate in aircraft being an example.

The FPIF contract requires the contractor to meet the contract requirements in return for a maximum or ceiling price. Before award, agreement is reached on a target cost, a target profit for this cost, a ceiling price for Government liability, and a formula to determine the cost share above and below target. Under this concept, if actual costs equal the target, the contractor would receive actual costs plus target profit. If actual costs are below target, the contractor would receive actual costs, plus target profit and a percentage of the difference between actual and target costs. If actual costs are above target, the contractor receives target costs and profit, plus a percentage of the costs over target, in a total amount not to exceed the ceiling price.

One of the key elements of the FPIF contract is the cost sharing formula, which determines the actual contractor profit or loss. The objective of utilizing a FPIF contract is to encourage contractor economies of operation through the use of

innovative techniques, while providing the quality of service required. The innovative management talent required is not in abundant supply and corporations will utilize that limited talent available in positions which offer the probability of highest profit return. Through the sharing formula, the Government determines the amount of expertise desired in full time corporation management. Example:

Target cost.....\$10,000,000.

Target profit..... 300,000.

Price ceiling..... 10,800,000.

For an 80/20 government/contractor split:

| | <u>5% Savings</u> | <u>On Target</u> | <u>5% Overrun</u> |
|----------------|-------------------|------------------|-------------------|
| Direct cost | \$9,500,000. | \$10,000,000. | \$10,500,000. |
| Profit | 400,000. | 300,000. | 200,000. |
| Contract total | 9,900,000. | 10,300,000. | 10,700,000. |

In this instance the difference between outstanding and average management is \$200,000 in profit. If the contractor is required to keep the capital equivalent of one month's costs in backing for the contract, the difference in return on contractor capital would be about 24% gross or a net profit after taxes of approximately 12% on capital out of circulation. However, if the total contract cost is utilized for comparison, the profit difference is about 2% gross or 1% net after average taxes.

For a 60/40 government/contractor split:

| | <u>5% Savings</u> | <u>On Target</u> | <u>5% Overrun</u> |
|----------------|-------------------|------------------|-------------------|
| Direct cost | \$9,500,000. | \$10,000,000. | \$10,500,000. |
| Profit | 500,000. | 300,000. | 100,000. |
| Contract total | 10,000,000. | 10,300,000. | 10,600,000. |

In this situation the difference in profit resulting from management action is \$400,000. Compared to capital required, this is a return of 40% gross or 20% net. When compared to contract cost, the resulting profit is about 4% gross or 2% net.

Although these examples are not intended to represent an actual case, the effect of cost sharing on contractor incentive to improve cost effectiveness is shown.

The CPAF contract is a variation of the incentive form of contract. Actual costs are reimbursed to the contractor, however, there is a cost limitation beyond which the contractor will not be reimbursed and beyond which the contractor is not required to perform further work. The fee is in two parts, a base fee and an award fee. The base fee is independent of performance, while the award fee is based on performance. Since the contractor has little risk under a cost reimbursable contract, Congress has limited the maximum fee for service contracts to 10% of the estimated cost, while the base fee is usually limited to 3%. The award fee consists of a subjective judgement by an evaluation board which reviews the contractor's performance based on predetermined factors. The award fee is not subject to a

disputes clause, thus making the board's recommendations essentially final. The evaluation of performance and assignment of the award fee is accomplished periodically, so that the contractor can improve performance in any area in which he is found to be deficient.

Cost reimbursable contracts are used only when it is not possible to estimate accurately or determine the cost of performance. Paragraph 3-405.1(b) of the Armed Services Procurement Regulation succinctly states:

The cost-reimbursement type contract is suitable for use only when the uncertainties involved in contract performance are of such magnitude that cost of performance cannot be estimated with sufficient reasonableness to permit use of any type of fixed-price contract. In addition, it is essential that [i] the contractor's cost accounting system is adequate for the determination of costs applicable to the contract and [ii] appropriate surveillance by Government personnel during performance will give reasonable assurance that inefficient or wasteful methods are not being used.

A conversion to contract should have minimum uncertainty since the estimate for cost of performance will be based on the past operation by the Government and should not normally require a cost reimbursable type contract.

The term of a multiple function service contract can be for one to three years. Normally government options are utilized to provide for annual extensions not to exceed a maximum of five years. The one year initial term with four one year options is an inducement for the contractor to provide early quality response to ensure renewal of the contract for the maximum term. In the multiple function contract, which requires

provision of significant equipment or a substantial initial investment to meet the contract requirements, the problem becomes one of amortization time. By using a longer initial contract term, the contractor's investment can be spread over a longer time period and result in a substantially lower contract cost. Changing wage rates during an initial term in excess of one year, can be accommodated by the use of an economic price adjustment provision in the contract. The selection of contract term must consider the trade-off in incentive that may be gained from a shorter initial term with more Government options, with a longer initial period and probable lower cost and/or profit requirements.

Performance and payment bonds are required by law for the majority of construction contracts. Normally, cost-reimbursable contracts and fixed-price contracts, other than for construction, do not require a performance and payment bond. While service contractor failure will usually result in inconvenience and require additional effort to provide an alternate means of accomplishment, this would be true with or without bonds. Payments for services are made after the fact and funds will not be disbursed without performance having been received. Since bonds increase the contract cost, the potential benefits which may be derived from the existence of a bond must be weighed against their cost before approving a bond requirement. For service contracts, bonds could be required when the contractor is required to have custody of and use government material, property or funds.

Proposal Evaluation. Forethought, team effort and consistent philosophy in the conceptual stage of a conversion to contract is equally as important following the issuing of an invitation for bid or request for proposal (RFP) as at other times. Topics which must be considered include proposal content, preproposal conferences, and the actual proposal evaluation leading to a recommended award.

The information required from contractors can vary from only a bid amount, in the case of a single function, small scope contract, to essentially an organization and procedures manual, including costing, for a large multiple function service contract. The information required must be consistent with scope of work, contract form, and the services to be provided including management expertise.

The preproposal conference is the time when prospective proposers can visit the site, meet the personnel who will be administering the contract and participate in a discussion of contract requirements. This conference can be a significant contribution to increased quality in proposals, reducing the effort and cost of both contractor and Government in preparing and evaluating proposals. Ideally, the preproposal conference should be held at the installation where the work is to be performed and should be held after proposers have had time to review the RFP. Government managers from each functional area should attend and be prepared to discuss and answer questions regarding their portion of the work. Additionally, it is

essential that all proposers be treated fairly and receive the same information from the preproposal conference. One method to ensure this standardization is to disseminate minutes of the conference.

The actual evaluation of proposals phase requires time and effort in direct proportion to the scope, complexity and estimated cost of the contract. This can require minimum time for an evaluation of bid realism and contractor responsibility in a competitively bid situation to a longer period, where it is necessary to form committees to perform a full technical, price and responsibility evaluation, including clarifying irregularities and negotiating with proposers.

The evaluation of proposals for a multiple function service contract is complex and requires a variety of talent. Each functional area of the contract requires representation from the technical organization responsible for performing the task.

Although price is an important consideration, an early determination must be made as to whether lowest cost or other management and performance type criteria will be the most significant factor. As a general rule, if price is to be the predominate factor in contractor selection, the firm-fixed-price competitively bid contract is used. When factors, other than cost, are the determining criteria for selection, it is necessary only that cost be within a reasonable range for the work to be performed.

Summary. Contracting multiple service functions provides an opportunity to acquire management expertise and flexibility to perform work without restrictions which often hamper a government operation. The utilization of a consistent philosophy throughout the preparation of the statement of work, the selection of contract type and the use of a sound method of proposal evaluation is important in achieving the desired result.

Contract types suitable for multiple function service contracts include fixed-price and cost-reimbursable, with various incentives used to achieve desired results. The actual selection of contract type is determined partly by the uncertainties in performance and partly by the degree of risk assumed by the contractor.

Evaluation techniques require extensive expertise and a well coordinated effort. Weight given to such areas as technical expertise, management capability and price will depend on the importance of each in regard to the conversion being considered.

While this discussion has not been all inclusive, its purpose will have been served if it has stimulated thought on the procedures and contracting techniques to be utilized when considering the possible benefits from multiple function contracting.

CHAPTER V

POST-AWARD CONSIDERATIONS

Introduction. This chapter is devoted to certain aspects of administration after contract award. The discussion will cover philosophy of administration, changeover from Government to contract operation and surveillance techniques. Although there are numerous details which are important in successful contract administration, procedures covering changeover and surveillance are the least likely to be found in existing contracting manuals. Rather than merely providing step by step procedures to be followed in the post-award period, this chapter will discuss the most important concepts involved in preparing to administer a multiple function service contract.

Philosophy. The multiple function service contract is normally a multimillion dollar enterprise. Contract costs are primarily labor related, with the preponderance of material and equipment provided by the Government, thereby increasing the actual value of the work performed to an amount well in excess of the face value of the contract. A successful operation requires top level skills and planning by the contractor. Additionally, the amount of effort and expertise devoted to the contract effort by the Government will have a direct bearing on the level of contract success.

A consistent approach to basic concepts becomes increasingly important in the early stages of contract execution. During the changeover, the initial contacts made between Government and contractor personnel, the attitudes demonstrated and assistance provided will have a significant impact on operations throughout the life of the contract. Pre-award planning is essential, since the changeover period could be unusually busy and it should not be necessary to devote the limited time available to problems that could have been handled earlier. This early planning will yield innumerable benefits to both the Government and the contractor.

The concept of administering a multiple function service contract involves provision of positive stimulation for a contractor to accomplish the specific tasks with high quality and at an economical cost. The means of doing this are the central issues of this chapter.

Changeover. Whenever procedures and/or people involved in an operation are changed, trauma results and extra effort is required until the situation stabilizes. At the commencement of a multiple function service contract, most aspects of the installation's daily method of operation will be effected to some degree. Those functions undergoing conversion are most directly effected, although other functions will feel some effect of such a changeover.

The goal of the changeover plan should be to keep all operations functioning with a minimum of interference with

activity mission accomplishment. Planning should start as soon as functions are identified for conversion. Throughout the implementation process the Government plan is reviewed and refined as personnel actions become more detailed, techniques for material and equipment custody are developed, and policies and procedures are established. The process is iterative and thus ensures that as many aspects as possible are considered in making the final implementation plan.

Surveillance. Validation of work accomplishment is an essential part of contract administration. The technique used for this validation varies with the circumstances of each individual contract.

Service contracts are generally labor intensive and do not produce an end product as easily defined as that for a manufacturing process or a building construction project. Output measures involving quantity are easily determined in manufacturing or construction activities, although quality may be somewhat more difficult to define. Quality control can rely on a contractor's program or it can be supplemented by Government review.

If Government personnel become more involved in the method of work accomplishment, contract administration will become more inspection oriented. Accordingly, the inspection will become a close and detailed review of the contractor's effort, tending to concentrate on how the work is accomplished.

Surveillance is a means of validating contractor performance and, in the context used here, is intended to

portray the process that ensures that the end product equates to the result desired. Ideally, it includes working with the contractor to develop agreed on measures of effectiveness allowing for a determination of the degree of excellence in contractor performance. This provides a means for determining how successful he has been in providing the management expertise for which the Government originally contracted. Refinement of the contractor's method of operation is an iterative process; however, it must initially be formalized to the extent necessary to serve as an aid in Government surveillance.

The organization used for surveillance can vary, depending upon the requirements of any given contract. Development of a standard organization for this purpose may be unnecessary and could be counter-productive. There are, however, basic concepts that should be utilized in preparing for the surveillance of a multiple function service contract.

The organizational entity responsible for pre-award contract functions will normally be a procurement office physically separated from the contract work site. Post-award administration functions, including surveillance, will be located at the installation where the work is performed. Often the same Government organization which supervised the operation before conversion to contract will accomplish the post-award Government functions involved in contract administration and surveillance.

A central office for contract administration could be of assistance by providing a primary point of contact between the Government and the contractor. Personnel assigned to this office could be involved in administration, surveillance, or both. These personnel may have either technical backgrounds in their fields of expertise, or they could be administrative contract specialists. Alternately, the contract specialists alone could be centrally located, while the surveillance personnel are located where the work is being performed. There are advantages and disadvantages to both the completely centralized operation and decentralized concepts. The majority of those activities involved in service contract operations of any magnitude, however, are decentralized.

The number of personnel required for surveillance is neither a fixed percentage of contractor work force nor is it derived from any other direct measure formula, as requirements will vary with the degree of complexity involved in validation of the end result. Aircraft maintenance, for example, will require more personnel for surveillance than grounds maintenance, not only because of work complexity, but also to minimize inherent risks such as loss of life and property.

Personnel assigned to surveillance duties must be qualified in both the technical field and contract administration. Since it is most unlikely that personnel with dual qualifications will be readily available, training will then be necessary in either the technical or administrative aspects of surveillance. The usual procedure is to assign

technically qualified personnel to surveillance duties and provide the necessary training in contract philosophy and procedures. Initial training will probably require a minimum of two days while an annual refresher course could be of even less duration.

A potential trouble area during contract administration is the possibility of a conflict with personal service laws. Simply stated, if the Government engages in the supervision of contractor personnel, either directly or indirectly, there is conflict with the law. A consistent approach which emphasizes accomplishment of required results, rather than specific contractor procedures, is important in avoiding this conflict.

A technique which may eliminate possible legal problems, as well as reduce surveillance difficulties, involves the attainment of an early agreement with the contractor on the concepts of performance and work verification. A common understanding of how surveillance will be accomplished and what and how often work will be reviewed, can result in economies to both the Government and the contractor.

Summary. This chapter has focused on a limited number of the post-award considerations. The formulation and consistent application of a philosophy permitting contractor flexibility, the planning for changeover, and the formation and training of an effective surveillance organization are all factors effecting contract success.

The adequacy of previous effort in planning is tested after the contract award. The philosophy used throughout the contract conversion process is important since the post-award procedures must be consistent with the original contract intent.

The changeover period from Government to contract operation is critical. Initial procedures and attitudes are formed which could influence performance throughout the life of the contract.

Surveillance of contractor performance is necessary to validate contractor compliance; however, the technique used and the innovation permitted must be consistent. Generally, surveillance should be directed toward accomplishment of an end product, rather than how the contractor does the work. Further, it is wise to review methodology periodically to ensure complete understanding of concepts by both the Government and the contractor.

Previous decisions on the statement of work philosophy and the type of contract utilized are key factors in determining numbers and skills required in a surveillance organization. In general, a contract with a performance oriented statement of work requires less numbers of administrative personnel, but higher functional skill capabilities than a detailed procedures contract. Surveillance of a firm-fixed-price contract normally uses fewer surveillance personnel with lower skill levels than a cost-reimbursable contract. Administration of an incentive contract will require a

surveillance capability somewhere between these examples.

Technically qualified personnel are essential to any good surveillance program, and before being assigned, training should be provided to all personnel in contract procedures that will be used in administering the contract.

CHAPTER VI

CONCLUSIONS

This study was undertaken to provide its readers with a better understanding of the implications of executing the national policy to accomplish base operations support by contract as expressed in OMB Circular A-76. It is intended to guide individuals toward improved implementation methods, and to assist them in avoiding program pitfalls. The following conclusions should be of value to those involved in the program.

- Executive Branch actions indicate that the trend toward conversion to contract will continue, particularly within DOD. Reductions in operating funds and concerns over the size of the Federal labor force will increase this emphasis.
- The exclusions and exceptions to the policy of contracting will remain, however more strict interpretations on their use will be in evidence. The modified cost comparison procedures and the firm bid/offer requirement will further reduce flexibility.
- The dichotomy which exists because of Executive Branch pressure for increased contracting in opposition to expressed Congressional desires to slow down will continue. While there will be some pressures for additional studies, the trend to increase the reliance on the private sector for goods and services will continue.

- In view of the existence of such important variables as operational readiness, labor markets, military skill requirements, geography and economics on the impact of decisions to convert to contract, the use of a comprehensive roadmap for conversion is precluded. Potential cost savings appear to be the only consistent reason for conversion to contract operations. Other stimuli vary not only from service to service, but within individual services.
- Neither of the two basic approaches to multiple function contracting, either centrally directed and managed or field activity generated and managed, is suitable for universal use. A hybrid approach is preferable, wherein a headquarters or major claimant issues basis policies and monitors progress while the field command initiates feasibility studies and implements the conversion.
- The new DOD requirement to employ only the firm bid/offer technique for making cost comparisons results in sub-optimization which can be counterproductive. This approach tends to encourage conversions of individual functions to contract, rather than giving full consideration to multiple function contracting. A modification of DOD guidance which would encourage the use of engineering cost estimates at the activity level, allowing for a more comprehensive analysis to be conducted would indicate where it was more feasible to group functions generically for contract.

- Budget base implications can be a significant issue in program execution at either the local command or major claimant level. From a national perspective, such elements as retirement fund reserves and military pay can make contracting the more cost effective option. Since these costs are neither budgeted locally nor, in most cases, at the departmental level, a cost estimate could result in a decision to contract for which funds are not available. This problem is exacerbated if military billets, rather than being eliminated, are merely transferred to another function or location. A policy decision is required to correct these potential deficiencies and, in addition, to provide for appropriate reprogramming actions in a timely manner.
- The multiple function contract provides an opportunity to acquire management expertise in addition to effecting cost savings. Unless there are overriding considerations, the umbrella technique can take advantage of new innovations and increased flexibility available through the acquisition of increased management expertise.
- A consistent philosophy, from the inception of the idea of conversion to contract until the end of the contract life, is mandatory. The statement of work and method of contract surveillance should, in particular, reflect this consistency.

- The type of statement of work utilized will depend on the services to be provided. Performance type specifications will provide greater flexibility and should be used unless staffing and qualification standards dictate a more detailed specification.
- The incentive type contract is most appropriate to the performance oriented multiple function contract. Incentives should be designed to encourage the contractor to emphasize those aspects determined to be most important. Cost-reimbursable contracts should be used whenever risk of uncertainty is too great to allow the use of fixed-price-incentive contracts.
- The evaluation of contractor proposals must focus on those aspects which have been determined to be most important in the situation being considered. Factors such as organization, management plan, personnel policies, past experience, etc., should be weighed more heavily than price.
- The concept of surveillance, rather than inspection, is essential when a performance type statement of work is utilized. The acquisition of management expertise by contract requires that contractor talent levels be matched by Government administrators. Early agreement on methodology and surveillance techniques is an important factor in maintaining professional relations between the Government and the contractor.

The research upon which this study is based was not all inclusive and reviewed only the contract conversion implications surfaced by a survey of readily available documentation and field visits to a number of service headquarters and field activities. As research progressed it became evident that a more detailed review of many aspects of conversion to contract would be productive. It is envisioned that some readers will wish to continue study on this important national issue. Areas which are considered worthy of additional research and analysis include:

- A review of the concepts employed by other Federal agencies, state and local governments and private industry for the provision of support services.
- Additional research into other incentive or award fee techniques which could be employed.
- A study of the use of Government-furnished-equipment vis-a-vis contractor-furnished-equipment.
- An analysis of the effects of various contractor and Government cost sharing formulae for use with incentive contracts.

APPENDIX I

OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-76

POLICIES FOR ACQUIRING COMMERCIAL OR INDUSTRIAL PRODUCTS
AND SERVICES FOR GOVERNMENT USE

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|---|---|-----------------|
| Circular A-76 | : | 3 March 1966 |
| Circular A-76, Transmittal Memorandum No. 1 | : | 30 August 1967 |
| Circular A-76, Transmittal Memorandum No. 2 | : | 18 October 1976 |
| Circular A-76, Transmittal Memorandum No. 3 | : | 13 June 1977 |

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON, D.C. 20503

March 3, 1966

CIRCULAR NO. A-76

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Policies for acquiring commercial or industrial products
and services for Government use

1. Purpose. This Circular replaces the statement of policy which was set forth in Bureau of the Budget Bulletin No. 60-2 dated September 21, 1959. It restates the guidelines and procedures to be applied by executive agencies in determining whether commercial and industrial products and services used by the Government are to be provided by private suppliers or by the Government itself. It is issued pursuant to the President's memorandum of March 3, 1966, to the heads of departments and agencies.

2. Policy. The guidelines in this Circular are in furtherance of the Government's general policy of relying on the private enterprise system to supply its needs.

In some instances, however, it is in the national interest for the Government to provide directly the products and services it uses. These circumstances are set forth in paragraph 5 of this Circular.

No executive agency will initiate a "new start" or continue the operation of an existing "Government commercial or industrial activity" except as specifically required by law or as provided in this Circular.

3. Definitions. For purposes of this Circular:

a. A "new start" is a newly established Government commercial or industrial activity or a reactivation, expansion, modernization or replacement of such an activity involving additional capital investment of \$25,000 or more or additional annual costs of production of \$50,000 or more. Consolidation of two or more activities without increasing the overall total amount of products or services provided is not a "new start."

b. A Government commercial or industrial activity is one which is operated and managed by an executive agency and which provides for the Government's own use a product or service that is obtainable from a private source.

c. A private commercial source is a private business concern which provides a commercial or industrial product or service required by

agencies and which is located in the United States, its territories and possessions, the District of Columbia, or the Commonwealth of Puerto Rico.

4. Scope. This Circular is applicable to commercial and industrial products and services used by executive agencies, except that it

a. Will not be used as authority to enter into contracts if such authority does not otherwise exist nor will it be used to justify departure from any law or regulation, including regulations of the Civil Service Commission or other appropriate authority, nor will it be used for the purpose of avoiding established salary or personnel limitations.

b. Does not alter the existing requirement that executive agencies will perform for themselves those basic functions of management which they must perform in order to retain essential control over the conduct of their programs. These functions include selection and direction of Government employees, assignment of organizational responsibilities, planning of programs, establishment of performance goals and priorities, and evaluation of performance.

c. Does not apply to professional staff and managerial advisory services such as those normally provided by an office of general counsel, a management and organization staff, or a systems analysis unit. Advisory assistance in areas such as these may be provided either by Government staff organizations or from private sources as deemed appropriate by executive agencies.

d. Does not apply to products or services which are provided to the public. (But an executive agency which provides a product or service to the public should apply the provisions of this Circular with respect to any commercial or industrial products or services which it uses.)

e. Does not apply to products or services obtained from other Federal agencies which are authorized or required by law to furnish them.

f. Should not be applied when its application would be inconsistent with the terms of any treaty or international agreement.

5. Circumstances under which the Government may provide a commercial or industrial product or service for its own use. A Government commercial or industrial activity may be authorized only under one or more of the following conditions:

a. Procurement of a product or service from a commercial source would disrupt or materially delay an agency's program. The fact that a commercial or industrial activity is classified or is related to an agency's basic program is not an adequate reason for starting or continuing a Government activity, but a Government agency may provide a product or

service for its own use if a review conducted and documented as provided in paragraph 7 establishes that reliance upon a commercial source will disrupt or materially delay the successful accomplishment of its program.

b. It is necessary for the Government to conduct a commercial or industrial activity for purposes of combat support or for individual and unit retraining of military personnel or to maintain or strengthen mobilization readiness.

c. A satisfactory commercial source is not available and cannot be developed in time to provide a product or service when it is needed. Agencies' efforts to find satisfactory commercial sources should be supplemented as appropriate by obtaining assistance from the General Services and Small Business Administrations or the Business and Defense Services Administration. Urgency of a requirement is not an adequate reason for starting or continuing a Government commercial or industrial activity unless there is evidence that commercial sources are not able and the Government is able to provide a product or service when needed.

d. The product or service is available from another Federal agency. Excess property available from other Federal agencies should be used in preference to new procurement as provided by the Federal Property and Administrative Services Act of 1949, and related regulations.

Property which has not been reported excess also may be provided by other Federal agencies and unused plant and production capacity of other agencies may be utilized. In such instances, the agency supplying a product or service to another agency is responsible for compliance with this Circular. The fact that a product or service is being provided to another agency does not by itself justify a Government commercial or industrial activity.

e. Procurement of the product or service from a commercial source will result in higher cost to the Government. A Government commercial activity may be authorized if a comparative cost analysis prepared as provided in this Circular indicates that the Government can provide or is providing a product or service at a cost lower than if the product or service were obtained from commercial sources.

However, disadvantages of starting or continuing Government activities must be carefully weighed. Government ownership and operation of facilities usually involve removal or withholding of property from tax rolls, reduction of revenues from income and other taxes, and diversion of management attention from the Government's primary program objectives. Losses also may occur due to such factors as obsolescence of plant and equipment and unanticipated reductions in the Government's requirements for a product or service. Government commercial activities should not be started or continued for reasons involving comparative costs unless savings are sufficient to justify the assumption of these and similar risks and uncertainties.

6. Cost comparisons. A decision to rely upon a Government activity for reasons involving relative costs must be supported by a comparative cost analysis which will disclose as accurately as possible the difference between the costs which the Government is incurring or will incur under each alternative.

Commercial sources should be relied upon without incurring the delay and expense of conducting cost comparison studies for products or services estimated to cost the Government less than \$50,000 per year. However, if there is reason to believe that inadequate competition or other factors are causing commercial prices to be unreasonable, a cost comparison study will be directed by the agency head or by his designee even if it is estimated that the Government will spend less than \$50,000 per year for the product or service. A Government activity should not be authorized on the basis of such a comparison study, however, unless reasonable efforts to obtain satisfactory prices from existing commercial sources or to develop other commercial sources are unsuccessful.

Cost comparison studies also should be made before deciding to rely upon a commercial source when terms of contracts will cause the Government to finance directly or indirectly more than \$50,000 for costs of facilities and equipment to be constructed to Government specifications.

a. Costs of obtaining products or services from commercial sources should include amounts paid directly to suppliers, transportation charges, and expenses of preparing bid invitations, evaluating bids, and negotiating, awarding, and managing contracts. Costs of materials furnished by the Government to contractors, appropriate charges for Government owned equipment and facilities used by contractors and costs due to incentive or premium provisions in contracts also should be included. If discontinuance of a Government commercial or industrial activity will cause a facility being retained by the Government for mobilization or other reasons to be placed in a standby status, the costs of preparing and maintaining the facility as standby also should be included. Costs of obtaining products or services from commercial sources should be documented and organized for comparison with costs of obtaining the product or service from a Government activity.

b. Costs of obtaining products or services from Government activities should include all costs which would be incurred if a product or service were provided by the Government and which would not be incurred if the product or service were obtained from a commercial source. Under this general principle, the following costs should be included, considering the circumstances of each case:

(1) Personal services and benefits. Include costs of all elements of compensation and allowances for both military and civilian personnel, including costs of retirement for uniformed personnel, contributions to civilian retirement funds, (or for Social Security taxes where

applicable), employees' insurance, health, and medical plans, (including services available from Government military or civilian medical facilities), living allowances, uniforms, leave, termination and separation allowances, travel and moving expenses, and claims paid through the Bureau of Employees' Compensation.

(2) Materials, supplies, and utilities services. Include costs of supplies and materials used in providing a product or service and costs of transportation, storage, handling, custody, and protection of property, and costs of electric power, gas, water, and communications services.

(3) Maintenance and repair. Include costs of maintaining and repairing structures and equipment which are used in providing a product or service.

(4) Damage or loss of property. Include costs of uninsured losses due to fire or other hazard, costs of insurance premiums and costs of settling loss and damage claims.

(5) Federal taxes. Include income and other Federal tax revenues (except Social Security taxes) received from corporations or other business entities (but not from individual stockholders) if a product or service is obtained through commercial channels. Estimates of corporate incomes for these purposes should be based upon the earnings experience of the industry, if available, but if such data are not available, The Quarterly Financial Report of Manufacturing Corporations, published by the Federal Trade Commission and the Securities and Exchange Commission may be consulted. Assistance of the appropriate Government regulatory agencies may be obtained in estimating taxes for regulated industries.

(6) Depreciation. Compute depreciation as a cost for any new or additional facilities or equipment which will be required if a Government activity is started or continued. Depreciation will not be allocated for facilities and equipment acquired by the Government before the cost comparison study is started. However, if reliance upon a commercial source will cause Government owned equipment or facilities to become available for other Federal use or for disposal as surplus, the cost comparison analysis should include as a cost of the Government activity, an appropriate amount based upon the estimated current market value of such equipment or facilities. The Internal Revenue Service publication, Depreciation; Guidelines and Rules may be used in computing depreciation. However, rates contained in this publication are maximums to be used only for reference purposes and only when more specific depreciation data are not available. Accelerated depreciation rates permitted in some instances by the Internal Revenue Service will not be used.

(7) Interest. Compute interest for any new or additional capital to be invested based upon the current rate for long-term Treasury

obligations for capital items having a useful life of 15 years or more and upon the average rate of return on Treasury obligations for items having a useful life of less than 15 years. Yield rates reported in the current issue of the Treasury Bulletin will be used in these computations regardless of any rates of interest which may be used by the agency for other purposes.

(8) Indirect costs. Include any additional indirect costs incurred by the agency resulting from a Government activity for such activities as management and supervision, budgeting, accounting, personnel, legal and other applicable services.

7. Administering the policy.

a. Inventory. Each agency will compile and maintain an inventory of its commercial or industrial activities having an annual output of products or services costing \$50,000 or more or a capital investment of \$25,000 or more. In addition to such general descriptive information as may be appropriate, the inventory should include for each activity the amount of the Government's capital investment, the amount paid annually for the products or services involved, and the basis upon which the activity is being continued under the provisions of this Circular. The general descriptive information needed for identifying each activity should be included in the inventory by June 30, 1966. Other information needed to complete the inventory should be added as reviews required in paragraphs 7b and c are completed.

b. "New starts."

(1) A "new start" should not be initiated until possibilities of obtaining the product or service from commercial sources have been explored and not until it is approved by the agency head or by an assistant secretary or official of equivalent rank on the basis of factual justification for establishing the activity under the provisions of this Circular.

(2) If statutory authority and funds for construction are required before a "new start" can be initiated, the actions to be taken under this Circular should be completed before the agency's budget request is submitted to the Bureau of the Budget. Instructions concerning data to be submitted in support of such budget requests will be included in annual revisions of Bureau of the Budget Circular No. A-11.

(3) A "new start" should not be proposed for reasons involving comparative costs unless savings are sufficient to outweigh uncertainties and risks of unanticipated losses involved in Government activities.

The amount of savings required as justification for a "new start" will vary depending on individual circumstances. Substantial savings should be required as justification if a large new or additional

capital investment is involved or if there are possibilities of early obsolescence or uncertainties regarding maintenance and production costs, prices and future Government requirements. Justification may be based on smaller anticipated savings if little or no capital investment is involved, if chances for obsolescence are minimal, and if reliable information is available concerning production costs, commercial prices and Government requirements. While no precise standard is prescribed in view of these varying circumstances a "new start" ordinarily should not be approved unless costs of a Government activity will be at least 10 percent less than costs of obtaining the product or service from commercial sources.

A decision to reject a proposed "new start" for comparative cost reasons should be reconsidered if actual bids or proposals indicate that commercial prices will be higher than were estimated in the cost comparison study.

(4) When a "new start" begins to operate it should be included in an agency's inventory of commercial and industrial activities.

c. Existing Government activities.

(1) A systematic review of existing commercial or industrial activities (including previously approved "new starts" which have been in operation for at least 18 months) should be maintained in each agency under the direction of the agency head or the person designated by him as provided in paragraph 8. The agency head or his designee may exempt designated activities if he decides that such reviews are not warranted in specific instances. Activities not so exempted should be reviewed at least once before June 30, 1968. More frequent reviews of selected activities should be scheduled as deemed advisable. Activities remaining in the inventory after June 30, 1968, should be scheduled for at least one additional follow-up review during each three-year period but this requirement may be waived by the agency head or his designee if he concludes that such further review is not warranted.

(2) Reviews should be organized in such a manner as to ascertain whether continued operation of Government commercial activities is in accordance with the provisions of this Circular. Reviews should include information concerning availability from commercial sources of products or services involved and feasibility of using commercial sources in lieu of existing Government activities.

(3) An activity should be continued for reasons of comparative costs only if a comparative cost analysis indicates that savings resulting from continuation of the activity are at least sufficient to outweigh the disadvantages of Government commercial and industrial activities. No specific standard or guideline is prescribed for deciding whether savings

are sufficient to justify continuation of an existing Government commercial activity and each activity should be evaluated on the basis of the applicable circumstances.

(4) A report of each review should be prepared. A decision to continue an activity should be approved by an assistant secretary or official of equivalent rank and the basis for the decision should appear in the inventory record for the activity. Activities not so approved should be discontinued. Reasonable adjustments in the timing of such actions may be made, however, in order to alleviate economic dislocations and personal hardships to affected career personnel.

8. Implementation. Each agency is responsible for making the provisions of this Circular effective by issuing appropriate implementing instructions and by providing adequate management support and procedures for review and follow-up to assure that the instructions are placed in effect.

If overall responsibility for these actions is delegated by the agency head, it should be assigned to a senior official reporting directly to the agency head.

If legislation is needed in order to carry out the purposes of this Circular, agencies should prepare necessary legislative proposals for review in accordance with Bureau of the Budget Circular No. A-19.

9. Effective date. This Circular is effective on March 31, 1966.

CHARLES L. SCHULTZE
Director

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON D.C. 20503

August 30, 1967

CIRCULAR NO. A-76
Revised

Transmittal Memorandum No. 1

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Policies for acquiring commercial or industrial products and services for Government use

Transmitted herewith is a revision of Bureau of the Budget Circular A-76 dated March 3, 1966. It is issued to clarify some provisions of the earlier Circular and to lessen the burden of work by the agencies in implementing its provisions. A brief summary of the changes is attached.

There is no change in the Government's general policy of relying upon the private enterprise system to supply its needs, except where it is in the national interest for the Government to provide directly the products and services it uses.

We intend to keep the provisions of the Circular under continuing review. We anticipate that further changes will be desirable in light of experience gained from implementing the Circular's provisions, including the required reviews of existing Government commercial or industrial activities to be completed by June 30, 1968. We intend to give special attention to the adequacy of the guidelines contained in the Circular for such matters as comparative cost analyses; the circumstances under which cost differentials in favor of private enterprise are appropriate; and the use of contracts involving support services that require minimal capital investment.

We welcome your suggestions.

PHILLIP S. HUGHES
Acting Director

Attachments

(No. A-76)

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EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON, D.C. 20503

August 30, 1967

CIRCULAR NO. A-76
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Policies for acquiring commercial or industrial products and services for Government use

1. Purpose. This Circular replaces Bureau of the Budget Circular A-76 issued March 3, 1966. It is issued to clarify some provisions of the earlier Circular and to lessen the burden of work by the agencies in implementing its provisions. The basic policies to be applied by executive agencies in determining whether commercial and industrial products and services used by the Government are to be provided by private suppliers or by the Government itself are the same as those contained in Circular A-76 dated March 3, 1966.

2. Policy. The guidelines in this Circular are in furtherance of the Government's general policy of relying on the private enterprise system to supply its needs.

In some instances, however, it is in the national interest for the Government to provide directly the products and services it uses. These circumstances are set forth in paragraph 5 of this Circular.

No executive agency will initiate a "new start" or continue the operation of an existing "Government commercial or industrial activity" except as specifically required by law or as provided in this Circular.

3. Definitions. For purposes of this Circular:

a. A "new start" is a newly established Government commercial or industrial activity involving additional capital investment of \$25,000 or more or additional annual costs of production of \$50,000 or more. A re-activation, expansion, modernization or replacement of an activity involving additional capital investment of \$50,000 or more or additional annual costs of production of \$100,000 or more are, for purposes of this Circular, also regarded as "new starts." Consolidation of two or more activities without increasing the overall total amount of products or services provided is not a "new start."

b. A Government commercial or industrial activity is one which is operated and managed by an executive agency and which provides for the Government's own use a product or service that is obtainable from a

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private source. The term does not include a Government-owned contractor-operated activity.

c. A private commercial source is a private business concern which provides a commercial or industrial product or service required by agencies and which is located in the United States, its territories and possessions, the District of Columbia, or the Commonwealth of Puerto Rico.

4. Scope. This Circular is applicable to commercial and industrial products and services used by executive agencies, except that it:

a. Will not be used as authority to enter into contracts if such authority does not otherwise exist nor will it be used to justify departures from any law or regulation, including regulations of the Civil Service Commission or other appropriate authority, nor will it be used for the purpose of avoiding established salary or personnel limitations.

b. Does not alter the existing requirement that executive agencies will perform for themselves those basic functions of management which they must perform in order to retain essential control over the conduct of their programs. These functions include selection and direction of Government employees, assignment of organizational responsibilities, planning of programs, establishment of performance goals and priorities, and evaluation of performance.

c. Does not apply to managerial advisory services such as those normally provided by an office of general counsel, a management and organization staff, or a systems analysis unit. Advisory assistance in areas such as these may be provided either by Government staff organizations or from private sources as deemed appropriate by executive agencies.

d. Does not apply to products or services which are provided to the public. (But an executive agency which provides a product or service to the public should apply the provisions of this Circular with respect to any commercial or industrial products or services which it uses.)

e. Does not apply to products or services obtained from other Federal agencies which are authorized or required by law to furnish them.

f. Should not be applied when its application would be inconsistent with the terms of any treaty or international agreement.

5. Circumstances under which the Government may provide a commercial or industrial product or service for its own use. A Government commercial or industrial activity may be authorized only under one or more of the following conditions:

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(No. A-76)

a. Procurement of a product or service from a commercial source would disrupt or materially delay an agency's program. The fact that a commercial or industrial activity is classified or is related to an agency's basic program is not an adequate reason for starting or continuing a Government activity, but a Government agency may provide a product or service for its own use if a review conducted and documented as provided in paragraph 7 establishes that reliance upon a commercial source will disrupt or materially delay the successful accomplishment of its program.

b. It is necessary for the Government to conduct a commercial or industrial activity for purposes of combat support or for individual and unit retraining of military personnel or to maintain or strengthen mobilization readiness.

c. A satisfactory commercial source is not available and cannot be developed in time to provide a product or service when it is needed. Agencies' efforts to find satisfactory commercial sources should be supplemented as appropriate by obtaining assistance from the General Services and Small Business Administrations or the Business and Defense Services Administration. Urgency of a requirement is not an adequate reason for starting or continuing a Government commercial or industrial activity unless there is evidence that commercial sources are not able and the Government is able to provide a product or service when needed.

d. The product or service is available from another Federal agency. Excess property available from other Federal agencies should be used in preference to new procurement as provided by the Federal Property and Administrative Services Act of 1949, and related regulations.

Property which has not been reported excess also may be provided by other Federal agencies and unused plant and production capacity of other agencies may be utilized. In such instances, the agency supplying a product or service to another agency is responsible for compliance with this Circular. The fact that a product or service is being provided to another agency does not by itself justify a Government commercial or industrial activity.

e. Procurement of the product or service from a commercial source will result in higher cost to the Government. A Government commercial activity may be authorized if a comparative cost analysis prepared as provided in this Circular indicates that the Government can provide or is providing a product or service at a cost lower than if the product or service were obtained from commercial sources.

However, disadvantages of starting or continuing Government activities must be carefully weighed. Government ownership and operation of facilities usually involve removal or withholding of property from

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the rolls, reduction of revenues from income and other taxes, and diversion of management attention from the Government's primary program objectives. Losses also may occur due to such factors as obsolescence of plant and equipment and unanticipated reductions in the Government's requirements for a product or service. Government commercial activities should not be started or continued for reasons involving comparative costs unless savings are sufficient to justify the assumption of these and similar risks and uncertainties.

b. Cost comparisons. A decision to rely upon a Government activity for reasons involving relative costs must be supported by a comparative cost analysis which will disclose as accurately as possible the difference between the cost which the Government is incurring or will incur under each alternative.

Commercial sources should be relied upon without incurring the delay and expense of conducting cost comparison studies for products or services estimated to cost the Government less than \$50,000 per year. However, if there is reason to believe that inadequate competition or other factors are causing commercial prices to be unreasonable, a cost comparison study will be directed by the agency head or by his designee even if it is estimated that the Government will spend less than \$50,000 per year for the product or service. A Government activity should not be authorized on the basis of such a comparison study, however, unless reasonable efforts to obtain satisfactory prices from existing commercial sources or to develop other commercial sources are unsuccessful.

Cost comparison studies also should be made before deciding to rely upon a commercial source when terms of contracts will cause the Government to finance directly or indirectly more than \$50,000 for cost of facilities and equipment to be constructed to Government specifications. Cost comparison studies should also be made in other cases if there is reason to believe that savings can be realized by the Government providing for its own needs. Such studies will not be made, however, if in-house provision of the product or service, or commercial procurement thereof, is clearly justified in accordance with other provisions of this Circular.

The determination as to whether to purchase or to lease equipment or to construct buildings or acquire their use under lease-construction arrangements involves a determination of the difference in costs under the alternatives, and the principles set forth in this Circular should be applied to the extent relevant in making such determinations.

a. Costs of obtaining products or services from commercial sources should include amounts paid directly to suppliers, transportation charges, and expenses of preparing bid invitations, evaluating bids, and negotiating, awarding, and managing contracts. Costs of materials furnished by the Government to contractors, appropriate charges for Government-owned equipment and facilities used by contractors and costs due to incentive or

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premium provisions in contracts also should be included. If discontinuance of a Government commercial or industrial activity will cause a facility being retained by the Government for mobilization or other reasons to be placed in a standby status, the costs of preparing and maintaining the facility as standby also should be included. Similarly, if such a discontinuance is expected to result in premature retirement of Government employees which will cause a significant increase in retirement costs to the Government, such increased cost should be added to the cost of procurement from commercial sources. Costs of obtaining products or services from commercial sources should be documented and organized for comparison with costs of obtaining the product or service from a Government activity.

b. For purposes of economy and simplicity in making cost comparison studies, generally agreed costs that would tend to be the same under either alternative need not be measured and included (for example, bid and award costs and operating costs under lease-purchase alternatives).

c. Costs of obtaining products or services from Government activities should include all costs which would be incurred if a product or service were provided by the Government and which would not be incurred if the product or service were obtained from a commercial source. The objectives should be to compute, as realistically as possible, the incremental or additional cost that would be incurred by the Government under the alternatives under consideration. In making such determinations it is important that recognition be given to the full amount of additional or incremental direct and indirect cost to be incurred in providing the products or services required. Under this general principle, the following costs should be included, considering the circumstances of each case:

(1) Personal services and benefits. Include costs of all elements of compensation and allowances for both military and civilian personnel, including the full cost to the Government of retirement systems, calculated on a normal cost basis, Social Security taxes where applicable, employees' insurance, health, and medical plans, (including services available from Government military or civilian medical facilities), living allowances, uniforms, leave, termination and separation allowances, travel and moving expenses, and claims paid through the Bureau of Employees' Compensation.

(2) Materials, supplies, and utilities services. Include costs of supplies and materials used in providing a product or service and costs of transportation, storage, handling, custody, and protection of property, and costs of electric power, gas, water, and communications services.

(3) Maintenance and repair. Include costs of maintaining and repairing structures and equipment which are used in providing a product or service.

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(4) Damage or loss of property. Include costs of uninsured losses due to fire or other hazard, costs of insurance premiums and costs of settling loss and damage claims.

(5) Federal taxes. Include income and other Federal tax revenues (except Social Security taxes) received from corporations or other business entities (but not from individual stockholders) if a product or service is obtained through commercial channels. Estimates of corporate incomes for these purposes should be based upon the earnings experience of the industry, if available, but if such data are not available, The Quarterly Financial Report of Manufacturing Corporations, published by the Federal Trade Commission and the Securities and Exchange Commission may be consulted. Assistance of the appropriate Government regulatory agencies may be obtained in estimating taxes for regulated industries.

(6) Depreciation. Compute depreciation as a cost for any new or additional facilities or equipment which will be required if a Government activity is started or continued. Depreciation will not be allocated for facilities and equipment acquired by the Government before the cost comparison study is started. However, if reliance upon a commercial source will cause Government-owned equipment or facilities to become available for other Federal use or for disposal as surplus, the cost comparison analysis should include as a cost of the Government activity, an appropriate amount based upon the estimated current market value of such equipment or facilities. The Internal Revenue Service publication, Depreciation Guidelines and Rules may be used in computing depreciation. However, rates contained in this publication are maximums to be used only for reference purposes and only when more specific depreciation data are not available. Accelerated depreciation rates permitted in some instances by the Internal Revenue Service will not be used. In computing the depreciation cost of new or additional facilities or equipment to be acquired if a Government activity is started or continued and in determining comparative costs under lease-purchase alternatives, appropriate recognition should be given to estimated residual or salvage values of the facilities or equipment.

(7) Interest. Compute interest for any new or additional capital to be invested based upon the average rate of yield for long-term Treasury bonds as shown in the current monthly Treasury Bulletin. The method of computation should provide for reduction in the capital investment to which interest is applied over the useful life of the asset on a straight-line basis.

(8) Indirect costs. Include any additional indirect costs incurred resulting from a Government activity for such activities as management and supervision, budgeting, accounting, personnel, legal and other applicable services.

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7. Administering the policy.

a. Inventory. Each agency will compile and maintain an inventory of its commercial or industrial activities having an annual output of products or services costing \$50,000 or more or a capital investment of \$25,000 or more. In addition to such general descriptive information as may be appropriate, the inventory should include for each activity the amount of the Government's capital investment, the amount paid annually for the products or services involved, and the basis upon which the activity is being continued under the provisions of this Circular. The general descriptive information needed for identifying each activity should have been included in the inventory by June 30, 1966. Other information needed to complete the inventory should be added as reviews required in paragraphs 7.b. and c. are completed.

b. "New starts."

(1) A "new start" should not be initiated until possibilities of obtaining the product or service from commercial sources have been explored and not until it is approved by the agency head or by an assistant secretary or official of equivalent rank on the basis of factual justification for establishing the activity under the provisions of this Circular.

(2) If statutory authority and funds for construction are required before a "new start" can be initiated, the actions to be taken under this Circular should be completed before the agency's budget request is submitted to the Bureau of the Budget. Instructions concerning data to be submitted in support of such budget requests will be included in annual revisions of Bureau of the Budget Circular No. A-11.

(3) A "new start" should not be proposed for reasons involving comparative costs unless savings are sufficient to outweigh uncertainties and risks of unanticipated losses involved in Government activities.

The amount of savings required as justification for a "new start" will vary depending on individual circumstances. Substantial savings should be required as justification if a large new or additional capital investment is involved or if there are possibilities of early obsolescence or uncertainties regarding maintenance and production costs, prices and future Government requirements. Justification may be based on smaller anticipated savings if little or no capital investment is involved, if chances for obsolescence are minimal, and if reliable information is available concerning production costs, commercial prices and Government requirements. While no precise standard is prescribed in view of these varying circumstances a "new start" ordinarily should not be approved unless costs of a Government activity will be at least 10 percent less than costs of obtaining the product or service from commercial sources. It is emphasized that 10 percent is not intended to be a fixed figure.

A decision to reject a proposed "new start" for comparative cost reasons should be reconsidered if actual bids or proposals indicate

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that commercial prices will be higher than were estimated in the cost comparison study.

(4) When a "new start" begins to operate it should be included in an agency's inventory of commercial and industrial activities.

c. Existing Government activities.

(1) A systematic review of existing commercial or industrial activities (including previously approved "new starts" which have been in operation for at least 18 months) should be maintained in each agency under the direction of the agency head or the person designated by him as provided in paragraph 8. The agency head or his designee may exempt designated activities if he decides that such reviews are not warranted in specific instances. Activities not so exempted should be reviewed at least once before June 30, 1968. More frequent reviews of selected activities should be scheduled as deemed advisable. Activities remaining in the inventory after June 30, 1968, should be scheduled for at least one additional follow-up review during each three-year period but this requirement may be waived by the agency head or his designee if he concludes that such further review is not warranted.

(2) Reviews should be organized in such a manner as to ascertain whether continued operation of Government commercial activities is in accordance with the provisions of this Circular. Reviews should include information concerning availability from commercial sources of products or services involved and feasibility of using commercial sources in lieu of existing Government activities.

(3) An activity should be continued for reasons of comparative costs only if a comparative cost analysis indicates that savings resulting from continuation of the activity are at least sufficient to outweigh the disadvantages of Government commercial and industrial activities. No specific standard or guideline is prescribed for deciding whether savings are sufficient to justify continuation of an existing Government commercial activity and each activity should be evaluated on the basis of the applicable circumstances.

(4) A report of each review should be prepared. A decision to continue an activity should be approved by an assistant secretary or official of equivalent rank and the basis for the decision should appear in the inventory record for the activity. Activities not so approved should be discontinued. Reasonable adjustments in the timing of such actions may be made, however, in order to alleviate economic dislocations and personal hardships to affected career personnel.

8. Implementation. Each agency is responsible for making the provisions of this Circular effective by issuing appropriate implementing instructions and by providing adequate management support and procedures for review and followup to assure that the instructions are placed in effect. A copy of

the implementing instructions issued by each agency will be furnished to the Bureau of the Budget.

If overall responsibility for these actions is delegated by the agency head, it should be assigned to a senior official reporting directly to the agency head.

If legislation is needed in order to carry out the purposes of this Circular, agencies should prepare necessary legislative proposals for review in accordance with Bureau of the Budget Circular No. A-19.

9. Effective date. This Circular is effective on October 2, 1967.

PHILLIP S. HUGHES
Acting Director

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(No. A.-76)

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FUNCTION CONTRACTING FOR. (U) NAVAL WAR COLL NEWPORT R
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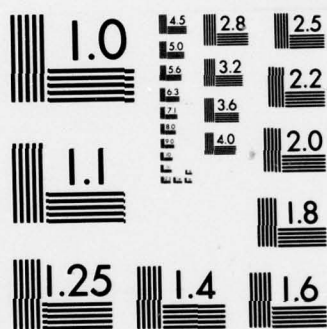
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SUMMARY OF CHANGES IN DUREAU OF THE BUDGET CIRCULAR NO. A-76
AS REVISED AUGUST 1967

Paragraph 3 - Definitions

3.a. The definition for a "new start" has been split as between (a) a newly established Government commercial or industrial activity and (b) a reactivation, expansion, modernization, or replacement of an activity. These separate definitions have been provided so that different dollar limitations on capital investment and annual cost of production may be applied. There is no change in the dollar limitations applicable to newly established Government commercial or industrial activities. But the dollar limitations have been doubled for the category of "new starts" that are a reactivation, expansion, modernization, or replacement of an activity. The change is necessary in order to avoid applying the "new start" procedures to routine adjustments for handling existing workload. For example, the replacement of a single machine tool at a shipyard may easily add capital cost of more than \$25,000, or the addition of only 10 employees at relatively low grades would add more than \$50,000 per year to production cost. This type of change occurs several times a year at a large facility and, under the terms of the earlier Circular A-76, each such change would have to be treated as a "new start" with a detailed cost study and a special approval.

3.b. The definition of a Government commercial or industrial activity has been clarified. The earlier Circular, by definition, excluded a Government-owned-contractor-operated activity but the wording was not entirely clear. The change made clarifies the fact that a Government-owned-contractor-operated activity is not to be regarded as a Government commercial or industrial activity for purposes of the Circular.

Paragraph 4 - Scope

4.c. The words "professional staff" that were contained in the earlier Circular have been eliminated. Paragraph 4.c. is intended to exempt various kinds of staff advisory services which are so intimately related to the processes of top management and control of Government programs that the general provisions of A-76 favoring reliance upon commercial sources should not be applicable. The term "professional staff" was so broad that it could be interpreted to apply to a large variety of services which are commercially available and which are not necessarily related intimately to top management and control of Government programs. The change will clarify the meaning of this subparagraph.

Paragraph 5 - Cost comparisons

A change is made in the third unnumbered paragraph to make clear that if there is reason to believe savings can be realized by the Government providing for its own needs, cost comparison studies should be made before

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deciding to rely upon a commercial source. However, the changed wording also makes it clear that cost studies will not be required if in-house provision of the product or service, or commercial procurement thereof, is clearly justified in accordance with other provisions of the Circular.

A new unnumbered paragraph has been added to provide guidelines for applying provisions of the Circular to purchase vs lease of equipment, and to construction of buildings vs acquisition under lease-construction arrangements. The paragraph requires a determination of the difference in costs under the alternatives, and application of the principles set forth in the Circular in making judgments in these areas.

6.a. A sentence has been added providing that if discontinuance of a Government commercial or industrial activity will result in premature retirement of Government employees, and will cause a significant increase in retirement costs to the Government, such increased costs should be added to the cost of procurement from commercial sources.

6.b. This is a new subparagraph. It provides that costs which would tend to be the same for both Government and industry need not be measured and included in comparative cost analyses (for example, bid and award costs and operating costs under lease-purchase alternatives). The change is made in the interest of economy and simplicity in making cost comparisons.

6.c. (Paragraph 6.b. in the earlier Circular). A sentence has been added to clarify the fact that the incremental method of costing is to be employed and to emphasize the importance of a realistic recognition of all such additional or incremental costs.

6.c.(1). (Paragraph 6.b.(1) in the earlier Circular). Some additional wording has been added to clarify, in connection with personal services and benefits, that the full cost to the Government of retirement systems should be included.

6.c.(6). (Paragraph 6.b.(6) in the earlier Circular). A sentence has been added to make clear that appropriate recognition should be given to estimated residual or salvage value of facilities or equipment in computing depreciation.

6.c.(7). (Paragraph 6.b.(7) in the earlier Circular). This paragraph has been rewritten to provide that the computation of interest for any new or additional capital to be invested will be based upon the average rate of yield for long-term Treasury bonds as shown in the current monthly Treasury Bulletin. Also, the method of computation suggested would provide for reduction in the capital investment to which interest is applied as the

(No. A-76)

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asset is depreciated. The purpose of the change is to clarify the rate and source of interest to be charged and to provide guidance as to the principal to which it is to be applied. The suggested rate is a readily available measure of the current cost of money to the Government and the provision for reducing the balance to which interest is applied is considered reasonable because the interest cost should not go on indefinitely.

6.c.(8). (Paragraph 6.b.(2) in the earlier Circular). A change in wording has been made to clarify that Government costs should include any additional indirect costs incurred for such activities as management and supervision, budgeting, accounting, personnel, legal and other applicable services.

Paragraph 7 - Administering the policy

7.b.(3). In the past there has been some misunderstanding about the cost differential in favor of private enterprise due to uncertainties relating to Government production costs, equipment obsolescence, and other factors, including the amount of capital investment involved. A sentence has been added to clarify the fact that the ten percent cost differential in favor of private enterprise, mentioned in this subparagraph, is not intended to be a fixed figure. The differential may be more or less than ten percent, depending upon the circumstances in each individual case.

Paragraph 8 - Implementation

A sentence has been added requiring agencies to furnish the Bureau of the Budget with a copy of their implementing instructions.

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(No. A-76)



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT POLICY

October 18, 1976

CIRCULAR NO. A-76
Revised
Transmittal Memorandum No. 2

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Policies for Acquiring Commercial or Industrial
Products and Services for Government Use

1. Purpose. This Transmittal Memorandum provides guidance and specific cost factors to be used when agencies prepare a cost analysis under OMB Circular No. A-76.
2. Background. OMB Circular A-76 expresses the Government's general policy of relying upon the private enterprise system to supply its needs for products and services, in preference to engaging in commercial or industrial activity. This policy reflects the fundamental concept that the Government should generally perform only those functions which are governmental in nature and should utilize the competitive incentives of the private enterprise system to provide the products and services which are necessary to support governmental functions. Those commercial or industrial activities which the Government performs directly for itself are not inherently governmental functions, but rather are exceptions to the fundamental concept, and their performance by Government personnel must be justified as being in the National interest.
3. Supplemental Guidance. Circular A-76 sets forth specific circumstances under which it may be in the National interest for the Government to provide directly some products and services for its own use. One of these circumstances permits justification of Government commercial or industrial activity if a detailed comparative cost analysis demonstrates that Government performance would result in sufficient savings to justify involvement in such activity. However, the Circular does not require that a cost study be made in every case to support a decision in compliance with the policy preference for reliance on commercial sources. A cost analysis is not needed in

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circumstances where the Government's economic interests would be protected, such as the existence of a competitive commercial market, unless the agency has some unique economic advantage which would enable it to supply the needed product or service at less than commercial cost. In determining whether a cost study should be undertaken, consideration should be given to the delay and expense involved in a study sufficiently detailed and comprehensive to provide valid results.

Cost studies, when conducted, should be made in accordance with the guidelines in Section 6 of Circular A-76, and must cover all identifiable costs of both commercial and Government performance. Instructions for the determination of costs incurred by Government activities in providing products and services are set forth in paragraph 6c of the Circular. In computing the cost of civilian personnel services for a Government activity, the actual cost to the Government for employee benefits, such as retirement and insurance programs, must be included. Guidance in calculating these cost elements has been provided by the U.S. Civil Service Commission, which has determined current percentage factors for Government contributions to employee insurance programs and the full cost to the Government of the Civil Service Retirement System.

4. Cost Factors.

a. For the convenience of Federal agencies making cost studies, the following percentages of base pay will be used in computing the costs of civilian personnel services:

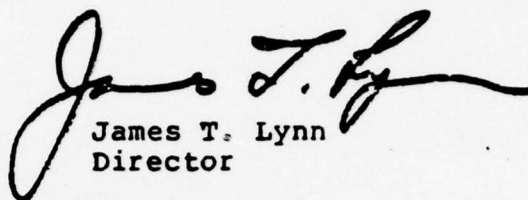
| | |
|------------------|-------|
| Retirement | 24.7% |
| Health Insurance | 3.5% |
| Life Insurance | .5% |

b. Cost comparisons made under the provisions of Circular A-76 should be sufficiently complete and documented to permit ready audit by qualified financial personnel. Copies will be made available to interested persons, on a cost reimbursable basis, when requested under the provisions of the Freedom of Information Act.

5. Effective Date. This Transmittal Memorandum is effective immediately.

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6. Inquiries. Inquiries or requests for assistance should be directed to the Office of Federal Procurement Policy, telephone 395-3327.



James T. Lynn
Director

(No. A-76)



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

June 13, 1977

CIRCULAR NO. A-76
Revised
Transmittal Memorandum No. 3

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Policies for Acquiring Commercial or Industrial
Products and Services for Government Use

1. Purpose. This Transmittal Memorandum amends Transmittal Memorandum No. 2, dated October 18, 1976, to revise, pending further review, the cost factor for computing retirement costs of civilian personnel services, and to provide interim guidance.

2. Change. The following change to Paragraph 4 of Transmittal Memorandum No. 2 is effective immediately:

The cost factor for retirement is changed from 24.7% to 14.1%

3. Explanation of Change. The retirement cost factor of 24.7% was based upon the accrual method of computation; that is, the factor represented a projection of the present value of future retirement benefits for Government employee annuitants. Both the validity of this figure and the use of the accrual method have been questioned. Consequently, and pending a complete review of this matter, as discussed in Paragraph 4, the retirement cost factor of 14.1% will be used. This factor is based upon the nonaccrual method of computation. It represents current total payments to employee annuitants, reduced by current employee contributions, expressed as a percentage of current civil service payroll.

4. Interim Guidance

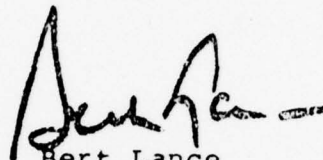
a. This Administration has undertaken a complete review of OMB Circular No. A-76 and its implementation. The change in the retirement cost factor is made at this time, as an interim measure, pending completion of the review.

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b. No moratorium is to be placed on the implementation of OMB Circular No. A-76 because of the review action. It is expected, however, that agencies will be careful and judicious in the selection of activities for consideration as to whether they should be performed in-house or by contract. In this connection, the quota requirement established by the previous Administration under the Presidential Management Initiatives Program and incorporated in OMB Circular No. A-113 is not an acceptable approach and is no longer to be followed.



Bert Lance
Director

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(No. A-76)

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APPENDIX II

SOME AIR FORCE EXPERIENCES IN
MULTIPLE FUNCTION CONTRACTING

APPENDIX II

SOME AIR FORCE EXPERIENCES IN MULTIPLE FUNCTION CONTRACTING

Introduction. Within the Defense Department, the Air Force has the most extensive experience in multiple function service contracts. Vance AFB, Oklahoma has been under essentially full contract operations and maintenance since 1960, Patrick AFB, Florida and the eastern test range facilities have utilized contract operation for an extended period, and the northern early warning radar sites have extensively utilized contracting for years.

The Air Force assigns responsibility for OMB A-76 implementation (AF Regulation 26-1) within Manpower and Organization at the Air Staff level. Each major command (SAC, ATC, AFSC, etc.) also includes the contracting responsibility within the Manpower and Organization staff element. Generally, service contracts are viewed as another resource available to accomplish assigned missions, in addition to military and civilian personnel assets. This concept facilitates coordination of personnel ceilings to subordinate commands.

Major commands are responsible for all requirements to accomplish their assigned mission. Programming, budgeting and execution are essentially centralized in each mission area, including support functions, thereby ensuring that support is provided consistent with operational requirements.

Since Vance AFB has had a majority of base support functions under contract for some seventeen years and is presently involved in negotiating for a new contract period, it provides an excellent base line case from which to begin a study of the subject of contracting for multiple base support functions. Additionally, a significant contract conversion is planned at Edwards AFB for aircraft maintenance and supply functions, involving the replacement of both military and civilian personnel. Although this conversion has not been completed, the process utilized thus far and lessons learned therefrom, should provide valuable assistance in other contemplated contract conversions. Finally, Aerospace Defense Command (ADCOM) experiences at early warning radar sites provide another valuable source of historical data on this subject.

VANCE AIR FORCE BASE

Introduction. Vance AFB is located at Enid, Oklahoma, about 100 miles north of Oklahoma City, and is one of seven Undergraduate Pilot Training (UPT) Wings in the Air Training Command (ATC). The mission is to train pilots, both U.S. and foreign, in jet aircraft. About 300 pilots are graduated annually, utilizing about 165 aircraft (T-37 and T-38) and 2,300 personnel (1,100 military, 130 civil service and 1,000 contractor employees). Within ATC, Vance is the only base maintained and operated by a single contractor - a unique situation which permits comparison of results with other bases with similar missions.

Background. The original contract, from FY 1961 to FY 1965 was a cost-plus-fixed-fee (CPFF) type. The contract was then converted to cost-plus-incentive-fee (CPIF) for three years and finally, in FY 1967, a fixed-price-incentive-firm-target (FPIF) contract was utilized and is the type still in use today. The original contractor was SERV-AIR Inc., who retained the contract through 1972. The FY 1973 contract was awarded to Northrop Worldwide Aircraft Services, Inc. This contract has been extended through exercise of government options until the end of the fiscal year 1977.

The contract cost has grown from just over \$4,000,000 in FY 1961 to over \$12,000,000 in FY 1976. While inflation has

accounted for a significant portion of the increased contract costs, expansion in contract scope and increased labor costs, incident to unionization of the labor force, have also played important roles in this rise.

Scope of Work. Since the inception of contract operations, only one deletion has occurred, when base security was returned to in-house accomplishment in FY 1969. Numerous scope additions have occurred over the years as a result of such things as increased flying hours and the introduction of more sophisticated aircraft types. Today, more than two dozen functional areas are contractor operated while, aside from the pure operational functions involved in flight training operations, less than a dozen are accomplished in-house.

Specifications. The statement of work is performance oriented and broadly outlines the required end result. Exceptions to this general rule are found in functions such as aircraft maintenance, where Air Force technical data must be followed; in supply, where interface is required with standard Air Force computer programs; and in the Fire Department, where a minimum manning is required.

The basic philosophy calls for the Air Force to delineate "what" the requirement is and to allow the contractor to determine "how" best to meet that requirement. Management is the key ingredient provided by the contractor in each of the functional

areas, in addition to the provision of a skilled work force. Thus, the specifications or statement of work encourages the contractor to exercise management initiative to obtain higher productivity and quality in the end product.

Wage Rates. Service Contract Act wage rates apply to all service functions under contract. Additionally, sub-contracts for construction require Davis-Bacon wage rates, when applicable.

Labor Unions. During the period when SERV-AIR was the contractor, no labor union was in existence. Following contractor changeover to Northrop in 1972, a reduction in benefits and wages resulted in employee dissatisfaction and led to the formation of an employees' union. Since that time, employee satisfaction appears to have been good. The existing union agreement contains an article which prohibits strikes, slow-downs, etc., and failure to comply with this article is sufficient grounds for disciplinary action, including discharge of an employee.

Surveillance. The senior Air Force officer, the Wing Commander has overall responsibility for all base activities, and exercises base support authority through the Base Commander. Administration of the contract itself is through a Department of the Air Force civilian (DAFC) known as the Administrative Contracting Officer (ACO). He is a professionally trained procurement

specialist and is the primary point of contact between the Government and the contractor.

Parallel organizations have been established by both the Government and the contractor. Assigned to surveil each functional area under contract is a Technical Representative of the Contracting Officer (TRCO). The Base Civil Engineer is assigned, for example, as a TRCO and has, as his contractor counterpart, the Director, Civil Engineering. A TRCO may be either an Air Force officer or a DAFC, but in all cases, he is technically qualified in the functional area he is assigned to surveil. Training in contract philosophy and surveillance procedures is given to TRCOs and monitored by the ACO. Daily reports of contractor operations are received by the ACO from TRCOs indicating any discrepancies and corrective action recommended.

Again, emphasis is on the end product, rather than procedures used, and the contractor is encouraged to utilize management innovations appropriate to the particular circumstance. In those cases where the contractor develops regulations or instructions which call for deviations from standard Air Force procedures, these procedures serve, after approval by the TRCO, as the basis for operation by the contractor as well as surveillance by the Air Force.

General Considerations. Subcontracts must be approved in advance by the ACO and normally involve accomplishment of special projects for construction, maintenance and repair. Cost of these

subcontracts is outside of target price, however no additional overhead is allowed for their execution. Government contracts with local firms for purchased utilities, are assigned to the Base Support Contractor for administration to maximize the single responsibility concept. Utility costs, with the exception of telephone, are a "wash through" from Government to utility company. Cost of telephone service is included within target costs.

The material and equipment utilized by the contractor is basically Government furnished. An exception occurs in the area of transportation equipment, where the contractor provides all sedans, station wagons, aircraft refuelers and trash collection equipment.

Cost Savings and Work Quality. The visitor to Vance AFB senses a feeling of contractor pride in efficient, quality performance. Additionally, employees give the impression that they feel their job is dependent on their contribution to quality and economy of operation.

Reported examples of savings to the Government as a result of contract operation include:

1. About 450-475 personnel utilized in aircraft maintenance compared to 700 military and civilian personnel at Reese AFB.
2. Ground transportation costs averaging 12.5 cents/mile compared to the Air Force average of 18 cents/mile.
3. Vehicle downtime of 2.6 percent compared to the Air Force average of 10 percent.
4. Approximately 120 contractor personnel employed in supply compared to about 245 military and civilian personnel at Reese AFB.

Advantages and Disadvantages. A number of advantages and disadvantages exist in the use of contract services at Vance AFB. The most obvious advantage is the resultant cost savings. Contributing to these cost savings, are the reduced facility requirements for military personnel, minimized training requirements for both military and civilian personnel, and a more stable work force in those instances where military personnel are utilized at other comparable UPT bases.

The single contractor or umbrella concept for base services contracting, provides a single point of contact for most situations requiring coordination in the day to day operations. When subcontracts interface with utility companies or other subcontractors, the prime contractor provides necessary coordination.

Concentration on the end product encourages the contractor to exercise management initiatives to decrease costs. This management initiative is demonstrated in such areas as personnel administration, where the utilization of multi-skilled workers is maximized.

Although the advantages are numerous certain disadvantages and potential problem areas must be recognized. Significant among these is the lack of a legal restriction prohibiting contract employees to strike. Although the current union agreement contains a no strike clause, and has never been invoked, the clause is theoretically subject to change at the beginning of each union contract period. Additionally, lack of direct control over the work force, reduced capability for mission change, and restrictions on overtime work tend to reduce flexibility and must be considered as disadvantages.

New Contract. The present Northrop contract will terminate at the end of fiscal year 1977. The planned start date for the new contract is 1 October 1977 with an initial period of one year, extendable at Government option for four additional one year periods. To permit consistent evaluation of proposals, all prospective bidders were required to submit the following information:

1. Operation and management policies
2. Understanding of the requirement and proposed method of operation
3. Evidence of financial capability
4. Experience
5. Manpower and utilization
6. Manpower requirements and source
7. Organization structure
8. Other government and commercial contracts
9. Mobilization (phase-in) plan
10. Price, including
 - a. Number of personnel, or man-year requirements by job classification
 - b. Average annual salary and total personnel cost.
 - c. Overhead or support costs, itemized for each functional area
 - d. Summary, including target cost, target profit, ceiling price and sharing formula

The evaluation of proposals consists of a technical evaluation and a price analysis. The technical evaluation assigns points in the following areas:

1. Overall experience in aircraft and simulator maintenance
2. Overall experience in other basic support functions
3. Understanding of the requirements and method of operation
4. Management policies and procedures
5. Manpower resources and utilization
6. Mobilization (phase-in) plan

The price evaluation assigns points for cost realism and risk, based on:

1. Target price
2. Final price resulting from a 5% overrun
3. Final price resulting from a 5% underrun
4. Ceiling price

The price evaluation utilizes the government estimate as a base and provides points from a weighted formula in each of the four categories above.

Competitive negotiation procedures are utilized and negotiations are normally conducted with all bidders whose proposals are within a competitive range. Negotiation can include matters relating to clarification, technical interpretation, price, etc. Contract award is made to the conforming proposer with the best overall proposal.

AIR FORCE FLIGHT TEST CENTER (AFFTC)
EDWARDS AFB

Introduction. Edwards AFB occupies a portion of the Los Angeles, Kern and San Bernadino counties of California in the western part of the Mojave Desert. The base and adjacent communities are separated from the Los Angeles metropolitan area by mountainous terrain, which serves to make the Edwards military and civilian communities self-sufficient.

The mission of the AFFTC is to conduct and support tests of manned and unmanned aerospace vehicles; conduct flight evaluation and recovery of designated aerospace research vehicles; perform development testing of aerodynamic decelerators; operate the USAF Test Pilot School; and to support and participate in other contractor test and evaluation programs.

The aircraft inventory includes fifty-six aircraft, which are a combination of prototype, preproduction and production models. Most of the aircraft are unique and/or modified for use in development, test and evaluation programs. Personnel assigned are approximately 3,250 military and 1,650 civil service.

Decision to Contract. The initiative for original contract conversion at AFFTC came from the local commander based on previous experience at NASA, where he considered aircraft maintenance to be effectively performed by contract. His interest, apparently was a prime factor in the ability of the staff to produce a

comprehensive feasibility study in a relatively short period of time with a minimum of coordination problems. The initial review of the aircraft maintenance function led to the conclusion that conversion to contract would be cost effective. During the initial review, factors effecting contract operation were identified. Since aircraft maintenance depends to a large degree on supply operations, this area was also included within the scope of work, following an initial favorable cost evaluation.

Previous Contract Experience. Aircraft maintenance was performed at Edwards by contract on two previous occasions. The first was in 1973 when transition was made from F-104C/D aircraft to F/RF-4 aircraft. The contract was utilized to maintain the aircraft being phased out, thereby easing the transition and eliminating a dual type workload. The contract was with Lockheed, the manufacturer of the F-104 and resulted in a 35% reduction in personnel.

The second aircraft maintenance contract deals with A/YA-7D aircraft and resulted from the difficulty encountered by government personnel in keeping the A-7 in operational status. The contract was awarded in 1974 to the manufacturer, Ling-Temco-Vaught (LTV). Initially, LTV utilized factory personnel to perform the maintenance, but shortly thereafter converted to local hires. It is estimated that the contract operation has

been accomplished with 40% less personnel. The effectiveness of the contract is demonstrated by the following:

1. Monthly availability up from 50+ hours to 75+ hours
2. Phase inspection time down from 14+ days to 6 days
3. NORS rate cut in half
4. Maintenance effort down from 40+ to 10+ man-hours per flight-hours.

Prior to concluding that contract operation was the best technique, an AFFTC team made visits to Vance AFB, Sheppard AFB, and the National Aeronautics and Space Administration (NASA). The team generally concluded that contract operation of aircraft maintenance showed potential for effective operation, with less manning by a multi-skilled workforce, requiring less supervision than the existing predominantly military operation.

Feasibility Study. To ensure that all factors effecting the contract conversion were considered, a formal feasibility study was made. Primary responsibility for aircraft maintenance is vested in the logistics organization of AFFTC. A coordinating group was established here to ensure that all necessary information gathering was accomplished. Two full time personnel from logistics were augmented as necessary from most of the AFFTC support organizations. After the study began, the supply function was identified as another candidate for contract conversion due to the close interface with aircraft maintenance.

The feasibility study contains chapters addressing background, approach, conclusions and recommendations. Supporting data and information is contained in annexes, which cover scope of work, manpower/cost comparison, financial, personnel, environmental assessment and procurement plan.

The rationale for the conversion to contract of aircraft maintenance and supply included a number of factors. The most significant of these were the preliminary cost studies required by AFR 26-1, the results of prior contracts at AFFTC at other locations, and the basic concept of converting only functions within one Deputy Commander's functional area.

The feasibility study also included consideration of items such as Government Furnished Equipment (GFE), Contractor Furnished Equipment (CFE) and the impact of strikes. The concept calls for GFE, including spares and spare parts, special purpose vehicles, specialized tooling and test equipment. The contractor is to provide the general purpose vehicles, hand tools and special clothing. Overall impact of strikes is reduced since AFFTC does not have an operational mission, however, there are certain functions which must be performed to ensure that damage does not occur to government facilities and or equipment. To minimize the

the impact of a possible strike, contingency plans are required. Not only must the contractor provide a plan for continuing essential functions in the event of a strike or work slowdown, but the AFFTC is preparing its own internal plan should that of the contractor fail.

Manpower Comparison. At the present time, AFFTC is utilizing about 1,100 personnel in the aircraft maintenance and supply functions. This total consists of about 800 military and 300 civil service personnel. It is estimated that about 700 contract employees will be required to provide the same level of effectiveness.

Costs and Budget. The majority of the anticipated savings are in military personnel, which are not budgeted for locally. Accordingly, cost savings will not be reflected in the local budget. From the AFFTC viewpoint there will actually be a budget increase in RDT&E funds to pay the contract costs. The one-time costs involved in conversion are significant and result in added cost for the first year of operation. These costs include those covering personnel overlap, permanent change of station funds for military personnel and civilian personnel relocations, saved pay, lump sum leave and severance. Comparison of budget costs by year is:

| <u>Appropriation</u> | <u>First Year</u> | <u>Second Year</u> |
|----------------------|--------------------------|------------------------------|
| Military Pay | - \$ 8.4M | - \$13.1M |
| O&M | - 0.1M | - 0.1M |
| RDT&E | + <u>11.5M</u> | + <u>7.4M</u> |
| TOTAL | + \$ 3.0M cost (7.8%) | - \$ 5.8M savings (14.2%) |

Contract. It is planned to utilize a fixed-price-incentive-firm-target (FPIF) type contract, which was prescribed by Air Force Systems Command (AFSC). Most of the local personnel would have preferred a cost-plus-award-fee (CPAF) contract, since it would provide for smoother start-up of contractor operations and is more like the RDT&E contracts with which the Procurement Office has the most experience. There seems to be no concern regarding the FPIF contract's effectiveness, however, additional administrative effort will be required.

The planned term of the contract is for a three year initial period with a government option to extend for two one-year periods for a possible total of five years. The initial three year term is considered to be more cost effective to the contractor and the Government by allowing the contractor to project investment costs and personnel requirements, thus allowing for a lower overall cost. The possible reduction in contractor incentive to perform satisfactorily during the first two years was disregarded, since the general approach is to view incentives in positive terms as something to be given, rather than in the negative sense as something to be withheld.

Most of the remaining aspects of the contract were based on Vance AFB procedures and administrative details. These include a performance oriented scope of work, similar proposal evaluation techniques, and contract surveillance procedures.

Coordination. The requirements for effective and timely coordination are many and varied. Included are the AFFTC organizational elements involved in contract conversion; senior commands, including AFSC, the Air Staff and DOD; unions; AFFTC personnel, both military and civilian; and local Congressional representatives.

Coordination was required with most of the local AFFTC organizational elements on the base. As might be expected, the most affected area was Logistics. Other elements involved included Civil Engineering, Transportation, Morale Welfare & Recreation, Comptroller, Judge Advocate, Procurement, and Personnel. Close coordination and assignment of portions of the Feasibility Study to the technical area involved was given maximum attention. Meetings included only those personnel required to cover the subject under discussion to reduce wasted time by group members. Personal command interest and involvement gave additional impetus to the coordination committee.

Early involvement of senior commands is considered essential since there are many questions that can be answered only at a higher level headquarters. The establishment of an effective two way information flow is essential and AFFTC has experienced

the normal frustrations in dealing with headquarters commands from a distance of 3,000 miles.

Because the local union was not brought into the picture early enough, some difficulty has resulted. The union had the local congressional representative sponsor a public meeting regarding contract conversion plans. Only after this public meeting occurred, were the problems in this area substantially eliminated. AFFTC now informs the union and government personnel as new developments occur.

Summary. The Edwards feasibility study, although comprehensive, did take over one year to complete, which is significantly more time than originally anticipated. In response to the question of "What would you do differently if you could do it over?", the reply was, "plan better, research directives more thoroughly at the beginning, establish a clear plan of action and milestones, and give more emphasis to a public relations program." This would have projected a more accurate estimate of the time required to complete the study.

Command support is essential. The personal direction and involvement from the AFFTC Commander kept the effort on schedule and encouraged cooperation of all personnel involved. Further, it is important that the headquarters command become involved in the process on a positive basis and as early as possible.

The Edwards feasibility study, environmental assessment and statement of work are useful guides for an activity considering a multiple function contract.

AEROSPACE DEFENSE COMMAND (ADCOM)
Peterson Air Force Base, Colorado

Introduction. ADCOM has utilized multiple function contracts at Ballistic Missile Early Warning Sites (BMEWS) and Distant Early Warning (DEW) stations in Alaska, Canada and Greenland for many years. These contracts are for total site operations and maintenance.

Discussion. Contracts are the firm-fixed-price (FFP) type and awarded for an initial three year period with a Government option to renew for two additional one year periods. The Government has never exercised an option and no contractor has ever obtained renewal of a contract by competitive bidding procedures. The FFP type contract is considered to result in a considerable cost savings, particularly when compared to a cost-plus type contract.

A performance type statement of work is utilized in general, although the civil engineer portion of the contract specifies minimum manning levels considered essential for winter operations.

Surveillance utilizes the TRCO method discussed earlier in the Vance AFB portion of this Appendix with minimum staffing by Air Force military personnel. TRCOs are normally Air Force officers who rotate each year and receive training in contract administration at ADCOM Headquarters on the way to their assignment as well as refresher training by on-site

visits of ADCOM personnel. Enlisted personnel are usually assigned as assistants to the TRCO and receive their contract training on station although future plans call for their training also to be at ADCOM on the way to their new duty station.

Other aspects of ADCOM service contracts are essentially the same as those covered in the previous sections of this Appendix dealing with Vance AFB and Edwards AFB.

Personnel Contacted. The following listing of personnel contacted and interviewed during the research phase of this study is provided to facilitate follow-on investigations as required:

Headquarters Department of the Air Force, Washington, DC

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| Mr. J.J. Greco | Manpower & Organ. | (A) 222-9464 |
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Air Training Command, Randolph AFB, Texas

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| COL C.D. Wall, Jr. USAF | Base Commander | -7519 |
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| LTC R.K. Wolfe, USAF | Procurement | -7565 |
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| Mr. Howard Hunter | Procurement (ACO) | -7565 |
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| Mr. John Leib | Civil Engineer | -7596 |
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| CAPT J.W. Cummings, USAF | Supply | -7393 |
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| CAPT Brown, USAF | Aircraft Maintenance | -7406 |
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Air Force Systems Command, Andrews AFB, Maryland

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| COL C.C. Mitson, USAF | Deputy Cdr Logistics | (A) 350-2320 |
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| Mr. Bill Dowdy | Logistics | -3271 |
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| Mr. Dick Landis | Procurement | -2617 |
| Mr. Bill Brueske | Management Engineering Team 28 | -3720 |

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| COL M.B. Rubenstein, USAF | DCS/Engineering & Svcs | (A) 692-3911 |
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APPENDIX III

SOME NAVY EXPERIENCES IN
MULTIPLE FUNCTION CONTRACTING

APPENDIX III

SOME NAVY EXPERIENCES IN MULTIPLE FUNCTION CONTRACTING

Introduction. Although the Navy has had considerable experience in contracting, this has been generally limited to functional areas selected by base commanders solely on their own initiative. The most frequently selected candidates for contractor operation have been areas such as berthing, messing, trash and garbage collection, grounds maintenance, bus service and maintenance of family housing incident to change of occupancy. Traditionally, each functional area has been contracted on an individual basis by either the activity Public Works or Procurement Officers and little, if any, thought or effort has been given to the idea of consolidating multiple functions into a single contract.

Background. To date, the sole significant experience in a total contracting out effort in CONUS has been at the Naval Submarine Base, Bangor Annex, Naval Torpedo Station, Keyport, Washington (NTS, Keyport). SUBASE, Bangor is currently undergoing a major expansion program encompassing new facilities construction of approximately \$700,000,000. The base lies some 15 miles due west of the city of Seattle, Washington and is located on the Hood Canal which outlets to Puget Sound. When completed, SUBASE, Bangor will provide support for the TRIDENT Submarine System currently scheduled to commence initial

operations in the 1979-1980 time frame. This support will include a broad range of logistical services including ship refit, crew training, missile support and supply functions for TRIDENT.

A base services contract was awarded in September, 1975 by the Navy Regional Procurement Office, Long Beach, California (NRPOLB) to perform base support functions for the rapidly expanding Bangor site which were beyond the limited in-house support capabilities of the then parent activity at Keyport. This contract, awarded to Pan American, was a cost-plus-award-fee (CPAF) contract for a period of one year with a Government option to extend the contract for two additional one year periods. The first one year extension option was exercised by the Government on 1 October 1976.

On 15 November 1975, the Project Manager, TRIDENT Submarine System (PM-2) requested the Naval Facilities Engineering Command (NAVFACENGCOM) to provide for the necessary contractual services to operate the SUBASE, Bangor at the expiration of the one year extension. Shortly thereafter, the Western Division, NAVFACENGCOM located at San Bruno, California, awarded a contract to VTN Washington, Inc. to provide an engineering/economic study which addressed certain base support functions (both Public Works and non-Public Works) and provided Commercial/Industrial (C/I) analyses and staffing recommendations for the accomplishment of these functions. Over 60 individual

C/I studies were conducted and comparative cost analyses of public works functions demonstrated the preferred operating mode to be by service contract. The results of the analyses of non-public works type functions were influenced by the failure to include military personnel costs in the analyses of those functional areas. It is in these areas that military personnel are normally found in greater proportionate numbers. Even then, analyses indicated only the firefighting and waterfront maintenance functions to be marginally cost-effective for operation by the Government. After considering the various factors involved, it was decided to include all functions in the contract effort. Analysis projected a savings of 6% when compared to in-house operations.

To aid in the orderly transition in the changeover of the administration of contractual services from NRPOLB to NAVFACENGCOM, supervision of the existing CPAF contract with PANAM was transferred from NTS, Keyport to the Public Works Officer, SUBASE, Bnagor on 1 February 1977 concurrent with the formal activation of that activity. This signaled the transition of contract administration responsibility from supply to engineer hands and was concluded to be a logical transition since some 85% of the contract was now for public works-type functions, although other services such as security, fire fighting, bachelor housing operations and messing were also included.

Discussion. The initial CPAF contract has provided the responsiveness and flexibility desired by the customer during a period that has seen the base grow exponentially with new facilities coming on line at a rate reaching \$9,000,000 per

month. While the CPAF contract provided the maximum of customer satisfaction, it has probably not been the most cost effective. As base operations approach a steady state, it has appeared to be prudent to change over to a different contracting technique. The new contract currently being advertised will be a fixed-price-incentive-fee (FPIF) with a firm target which will encourage the contractor to exercise better management control and seek out new and innovative operational and managerial techniques in his day to day operations. It is envisioned that the use of an incentive award will encourage the contractor to emphasize not only work performance, but, of equal importance, maintenance management. By encouraging the contractor to become an equal partner in the management of the complex, the entire operation should provide a team effort on the part of the Government and contractor alike.

The incentive to be utilized which will encourage the contractor to accomplish the work with the minimum resources consistent with the required quality is set forth as follows: 1) for costs over the target, Government/contractor will share on an 85%/15% basis; 2) for costs under the target, Government/contractor will share on an 80%/20% basis.

The specifications utilized in the proposed FPIF contract are composed of three general types, performance, level of effort and watchstanding. Performance specifications govern approximately 60% of the workload and include the

majority of the Public Works-type functions plus others including supply and food service. An additional 35% of the workload including engineering, automatic data processing and building and structures maintenance utilizes level of effort type specifications. The small amount of the workload remaining is covered by watchstanding specifications and encompasses fire protection and security services.

Because of the high value of Government equipment and material in the hands of the contractor, the contract proposed by the Navy includes the requirement for both performance and payment bonds, although initial informal contacts with at least one large prospective bidder indicated that some of the larger firms have corporate policies which discourage participation in ventures requiring such bonds.

The new FPIF contract to be utilized at SUBASE, Bangor is to have a base period of one year (1 October 1977 - 30 September 1978) with a Government option to renew annually for a contract period not to exceed a total of five years. It is interesting to note that most Navy officials would prefer a base contract period for multiple years, say three, with options to extend for a period not to exceed a total of five years. This longer base period, they postulate, would allow the contractor to provide a more favorable bid if he were able to amortize "tool-up" costs over an assured multi-year base.

The specifications require that bidders provide a contingency plan in the event of potential work stoppages caused

by strikes. Additional thought has been given to this possibility by NAVFACENGCOM contracting personnel and it is envisioned that personnel from Public Works Centers and Naval Shipyards on the West Coast engaged in similar commercial or industrial type work being contracted for would be brought to Bangor should a work stoppage appear to jeopardize timely accomplishment of mission essential activities. Military personnel would also be available for use in some of the less technical areas, if necessary.

To assure a fair and accurate assessment of the numerous contractor proposals anticipated, a detailed listing of evaluation factors has been developed and published. These factors are organized as follows:

1. Personnel, Resources and Productiveness
 - a. Identification of Key Personnel
 - b. Qualifications of Key Personnel
 - c. Integration of Key Personnel
2. Proposers Experience in Contract Support Services
 - a. Facility and Equipment Maintenance and Repair
 - b. Transportation, Maintenance and Operations
 - c. Utilities Operations and Maintenance
 - d. Supply Operations
 - e. Security
 - f. Fire Protection
3. Management and Administration
 - a. Lines of Authority and Supervision
 - b. Accountability for Mission Function
 - c. Accounting Practices/Procedures
 - d. Phase In Plan
4. Comprehension of Specific Requirements
 - a. Manning
 - b. Material
 - c. Equipment

5. Proposer's Method of Organization

- a. Interphase with Government Operations
- b. Innovation
- c. Sufficiency of Plan

Quality points will be awarded for each of the above factors and sub-factors and award of the contract will be made to that firm offering the lowest dollar to quality point ratio.

Personnel Contacted. The following listing of personnel contacted and interviewed during the research phase of this study is provided to facilitate follow-on investigations as required.

Headquarters, Naval Material Command, Washington, DC

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| CDR C.J. Gibowicz | Dir., Public Works Div. | -8194 |
| Mr. Walter S. Evans | Dir., Contracts Div. | -9121 |

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| CDR Gordon Tinker | Executive Officer | |
| LCDR T.B. Michna | Dir., Contracts Div. | |

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APPENDIX IV

SOME ARMY EXPERIENCES IN
MULTIPLE FUNCTION CONTRACTING

APPENDIX IV

SOME ARMY EXPERIENCES IN MULTIPLE FUNCTION CONTRACTING

Preface. The information presented herein is presented as a summary of some recent examples of Army efforts in this area based upon on-site visits and interviews, augmented with research of Army directives and other documents. The majority of the data presented came from study group visits in April, 1977, to three Army locations, specifically: the Office of the Deputy Chief of Staff for Logistics, Headquarters, Department of the Army, Washington, DC; the Headquarters, U.S. Army Training and Doctrine Command (TRADOC), Fort Monroe, Virginia, an Army major command staff; and the Headquarters, U.S. Army Signal Center, Fort Gordon, Georgia, an Army field activity. The intent of this review of Army experience and procedures is to gain insight into their methodology and to aid in the development of Navy procedures.

Introduction. As a component of the Defense Department, the Army functions under DOD implementing directives in terms of C/I reviews and cost comparisons. In November 1972,

() Army Regulation 235-5, entitled Management of Resources, Commercial and Industrial-Type Functions was promulgated. This directive, quite similar to those of its sister services, provided the basic Army policies and procedures of the management and contract conversion comparisons of C/I functions. Understandably, it provides no unique policy exceptions nor emphasis.

(The Army major commands, in turn, have also issued similar implementing instructions or guidelines to those field activities under their authority. The Army has no CONUS bases wherein a majority of the base operational support functions are performed by private enterprise under contract. With respect to the concepts of such total base, or multiple function, conversions, Army attention has been focused on training activities, under TRADOC control, rather than at bases oriented toward combat and combat support commands. It is envisioned that the first substantially total Army base conversion to contract will occur within the next year.

The Army thus far has initiated OMB A-76 conversions almost exclusively through single function transfers to contract. Such activities as janitorial services, trash and garbage collection, and school bus operations are typical of those

functions being performed by contract at many Army locations and Fort Rucker, Alabama, is presently contracting the aircraft maintenance activity on its training helicopter fleet. Approximately 70% of the Army's CONUS C/I functions are being performed in-house, however, with either civilian and/or military personnel.

Background. On 24 May 1974, the Commanding General, U.S. Army Signal Center, Fort Gordon, Georgia, forwarded a recommendation to the Commanding General, TRADOC that a multi-function conversion to contract effort be undertaken at Fort Gordon. Functions in the industrial operations area were recommended as an Army test case of this concept. This recommendation was based upon a local command review of the present methods of performing these functions, a survey of the local area employment situation, and a strong feeling that such a conversion would be both more cost effective and responsive than presently employed methods. It is interesting to note that the original concept for this conversion originated at a field activity, as opposed to its being a directed effort from above as might normally be expected. On 19 September 1974, Department of the Army (DA) concurred in the Fort Gordon concept and declared it to be the Army test case for such base support function conversions to contract.

Briefly, the Fort Gordon concept originally envisioned a single contract converting ten functions to contractor

operation. These functions, all currently under the purview of the Directorate of Industrial Operations, included such tasks as family and bachelor housing operations, equipment maintenance (primarily communications and motor vehicle items), food services, laundry tasks, supply functions, and motor vehicle operations. It should be noted that functions related to the maintenance of real property, such as those associated with facilities, utilities and other public works matters, which come under the Directorate of Facilities Engineering, were not considered for conversion under this concept. As cost comparison studies were perfected, additional functions were added to the proposed umbrella contract until the present total of nineteen functions was reached. Additions included more supply functions, transportation movement operations, and finally the maintenance of family housing. Again, the majority of public works type functions were still not included.

In-house costs were strictly accounted for in accordance with the procedures of OMB A-76, and were then audited by the Army Audit Agency. Contract costs were obtained through a solicitation of information-only bids from twenty large prospective contractors, three of whom responded in detail. Based upon these initial comparisons, it was concluded that contracting was feasible and would result in at least an equal level of services performed at an annual savings of about 12%. Further details on various aspects of the Fort Gordon experience will be presented in the discussion portion of this Appendix.

Since complete reliance could not be placed upon the validity of informational price quotations and the constituted no legal agreement with the contractor, the DA decided that separate tests would be conducted at four TRADOC bases to validate savings, quality, and levels of services by actually contracting the functions. The first of these tests would be the Fort Gordon case which converts essentially the purely industrial operations at a large and fully operational training base. A second test was directed at another large and fully operational training base, Fort Eustis, Virginia. Here, however, the functions to be converted would primarily be those related to facilities engineering or public works. The third site chosen was a much smaller base, Carlisle Barracks, Pennsylvania, the home of the Army War College, where a majority of base operations support functions would be converted. The last test location was a small base, Fort Chaffee, Arkansas, now almost in a caretaker status and used only for reserve training, where the total base operations support functions would also be contracted. Detailed cost comparison studies for all four sites were conducted in late 1974, and they have been refined and updated in 1975 and 1976. In all cases, studies indicated the contract option to be more cost effective. To date, none of the conversions has taken place, but Fort Gordon, the originally selected test case is scheduled for contract implementation in April, 1978.

Procedural and conceptual implementation difficulties, coupled with bureaucratic delays, resulted in postponing the actual execution of a test conversion. The major reason for the delay was a DA directed civilian manpower ceiling reduction of 1,000 ceiling points for TRADOC bases in FY 1977. Staff personnel engaged in the conversion studies were forced to divert their attention to determining optimum methods for absorbing these single function reductions among sixteen Army training sites. Multiple function conversions were suspended temporarily in response to this time sensitive evolution. The proposals for Eustis, Carlisle, and Chaffee are presently dormant; however, final execution planning is well underway for the Fort Gordon conversion.

Discussion. With respect to the identification of candidate functions and/or locations for possible conversions to contract, cost was the dominant factor in the decision making. The Army established a major ground rule in restricting multiple function tests to training command bases only. The risks of implementing such a new venture at combat and combat support commands were considered too great in the early phases. Within TRADOC, the four test cases were chosen to allow for a varied cross section of commands having a variation in tempo of operations, size, and functional areas. The cost aspect remained paramount, however, and initial functional areas were selected for inclusion in the proposed umbrella contract based

almost exclusively upon the cost data available in the OMB A-76 inventory bank, with generic groupings being developed for each site. A bureaucratic approach was apparent, however, as industrial operations were included and public works functions were excluded at Fort Gordon, while the reverse occurred at Fort Eustis. It is anticipated that functions or sites for all conversions will remain dominant.

An important aspect of Army conversion experience is the firm requirement that all conversion cost studies must be formally audited by the Army Audit Agency. This requirement assists in eliminating possible local or major command bias and ensures maximum objectivity in cost comparisons.

Based upon observations at the locations visited, it was evident that the Army considered the critical aspect of the program to be the provision to prospective bidders of the best possible contract specifications or statements of work. Army directives are quite emphatic in specifying that statements of work used for computing in-house costs must be identical to those included within the specification upon which the contractor will base his proposal. The philosophy followed in the Fort Gordon test case is one of exclusive reliance on a performance specification which, for all functional areas involved, states the end result desired. Great care has been exercised in this regard to keep away from overly rigid and too detailed specifications, in that it is considered that such excess rigidity, it is presumed, will lead to possible

antagonism and difficulties between the Government and the contractor in administration and execution. This emphasis evolves from the principle that, in contracting for industrial operations at Fort Gordon, the Government is buying expertise and knowledge. Accordingly, it would be counter productive to dictate to the contractor how to do the job.

Related to type of statement of work to be utilized, Fort Gordon developed a technique using detailed functional descriptions known as Standing Operating Procedures (SOP). These SOPs are similar to job descriptions, and are written for each sub set of functional area, such as the housing furniture inventory section. These SOPs are not a formal part of the specification, but are available, as part of a reference library for the prospective bidders to examine and better understand the detailed operations of functional areas. The successful contractor will be required to update and revise these SOPs periodically during the term of the contract.

In contrast to the utilization of informational bid offer procedures at Gordon, Eustis, Carlisle and Chaffee, the Army, in accordance with recent DOD Directives, will evaluate proposals at Fort Gordon by means of the Firm Bid/Offer Technique. If the contract proposal, acceptable in all other respects, is lower than the Government price, a contract award will be made and the conversion will be implemented.

All four test sites plan to utilize a single umbrella contract. This approach is taken primarily to afford the Government a single point of contact and, center total responsibility with one source, thus facilitating contract administration. Further, it is hoped to encourage the larger and more experienced corporations to submit proposals. Government owned facilities and equipment now utilized in house to perform the functions will be provided to the contractor.

The Army plans to negotiate a cost-plus-award-fee (CPAF) type contract, as it believes that adequate historical data is not available to allow for initial conversion to a fixed-price-incentive-fee (FPIF) type contract. Army policy also limits the initial term of the contract to one year, with provisions to extend at Government option for two additional one year periods. Thus any successful bidder is limited to a maximum contract term of three years before he would have to re compete for a new award.

The Army acknowledges that the success of any multi-function conversion is dependent on the understanding and strong support of the concept by command. A dedicated effort is underway to ensure such support for the program by senior Army officers both at the test locations and at higher staff levels.

Difficulties in effecting conversions due to objections by Government employee unions are anticipated. The Army is keeping the unions and congressional delegations continuously informed as to program status, and plans to allow prospective

conversions to stand on their own merits by making available all aspects of the cost studies after a contract is awarded. Local community benefits from conversions such as tax base increases, additional cash flow through local banks, and probable employment increases to replace military personnel are also being emphasized.

With respect to evaluation of contractor proposals, a rigid and detailed point assignment matrix is not now planned. Such an overly detailed matrix is considered too binding. Rather, in the Fort Gordon case, two broad evaluation areas have been identified as being essential in determining the successful bidder. The first of these areas concerns the firm's management capability, including his overall operation and existing and proposed organization. This sector includes a review of company policies, organization and structure, manpower levels, and utilization technique. Of almost equal importance is an evaluation based upon the technical and quality control merits of the proposal, including a review of the firm's experience and its expressed understanding of the contract requirements. Next will come an evaluation of the price and cost aspects of the proposal and, finally, the contractor's safety program will be assessed.

The request for proposals at Fort Gordon, for example, calls for the proposer to submit his offer in five volumes as follows:

- Summary and General Information
- Management Plan
- Technical and Quality Control Plan
- Price and Cost Proposal
- Safety Program

The Army concept calls for a clear understanding on the part of the successful contractor of the output or performance level required, coupled with a mutual acceptance of the method for evaluation leading to award.

Study is still ongoing with respect to alternate methods for administering the first of these multiple function contracts, with extensive use of lessons learned from Air Force experience. The purely administrative aspects of the contract and the final decisions on items of potential dispute rest with the Administrative Contracting Officer (ACO). These functions include items such as decision on change orders, cost verifications, and processing of periodic payments. Existing procurement personnel will probably fill these roles, however, performance and quality control considerations will rely almost exclusively on functional expertise provided by appropriate Government military or civilian personnel within their respective areas. This technique is envisioned as a means to provide better contractor-to-Government liaison, to identify possible problem areas as early as possible, and to develop a

cooperative and cohesive environment. This policy acknowledges a requirement for extensive staffing. At Fort Gordon, for example, a requirement for 51 Government employees in surveillance roles is envisioned for a total contractor work force of about 850 personnel.

Concerns. The Department of the Army has identified four major areas for concern in implementing multiple function contracting. The first of these involves the provisions of law and Armed Services Procurement Regulations as they apply to service contracts. The Civil Service laws, the Davis-Bacon Act, and the Service Contract Act also can impact directly on base operations contracting. For example, contracts must not impose such controls on contractor personnel which in effect, make them essentially Government employees. Further, wage determinations issued by the Department of Labor under the Service Contract Act effect contract costs as wages are adjusted to reflect changing rates in the local area. Strict compliance with these and similar legal provisions is essential. A key issue in this area is the avoidance of semblance of a personnel services contract.

A second major concern is the Army's capability to deal with the effects of strikes and other work stoppages, the impact of which could be most severe. The Army intends to use military personnel on an emergency basis as needed, but it recognizes the potential difficulty in sometimes finding troops

with the requisite skills. In addition, policy and regulations preclude the use of troops for certain types of work and in specific situations. Further, DOD impartiality in labor disputes must be maintained. The strike problem in such cases is no different from that in other Government contracting, where there is no way to ensure that functions will continue to be performed. The present approach is to require proposers to submit both a summary of their prior labor relations history, as well as a work stoppage contingency plan. The Government hopes to place responsibility for problems resulting from such issues on to the contractor as much as possible. Concurrently, the Army plans to develop internal strike contingency plans for each converted base which could involve such actions as airlift of a replacement work force for critical areas. The potential for difficulties due to work stoppages increases considerably as greater numbers of CONUS locations are converted to contract.

A third expressed problem area is the impact of increased contracting on maintaining a CONUS rotation base for combat skilled personnel, particularly in the fields of specialized maintenance and supply. Military personnel are assigned to billets at the installation level to balance the rotation base, and where deficits exist, to help reduce them. The problem can readily be managed if only the four test sites are converted, but extensive implementation of the contract concept results in potentially more significant difficulties. The

issue is far from resolved, although billets for certain critical occupational specialities have been identified for retention despite contract conversions.

The last major area of concern involves the impact and the proper manner of accounting for military personnel costs and other cost elements not budgeted for at the base or major command level. Military personnel costs are properly included in cost comparisons if, as a result of conversion, the military billets are actually eliminated and taken as reductions to total Army end strength. If, however, for reasons such as the preservation of CONUS rotation base described above, those military billets replaced by contract are then reprogrammed elsewhere, the cost accounting technique is faulty. If the actual cost of those elements not locally budgeted for, such as civilian retirement items, and tax losses were included in comparisons, the real costs to the Government through contract may be less than those expended on in-house performance. The actual out-of-pocket expense to contract out may, however, be greater at the local or major command level. These examples emphasize the necessity to ensure that such shortfalls are identified early enough to allow fund reprogramming actions to be taken, if and when necessary. This is a difficult task.

Personnel Contacted. The following listing of personnel contacted and interviewed during the research phase of this study is provided to facilitate follow-on investigations as required.

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